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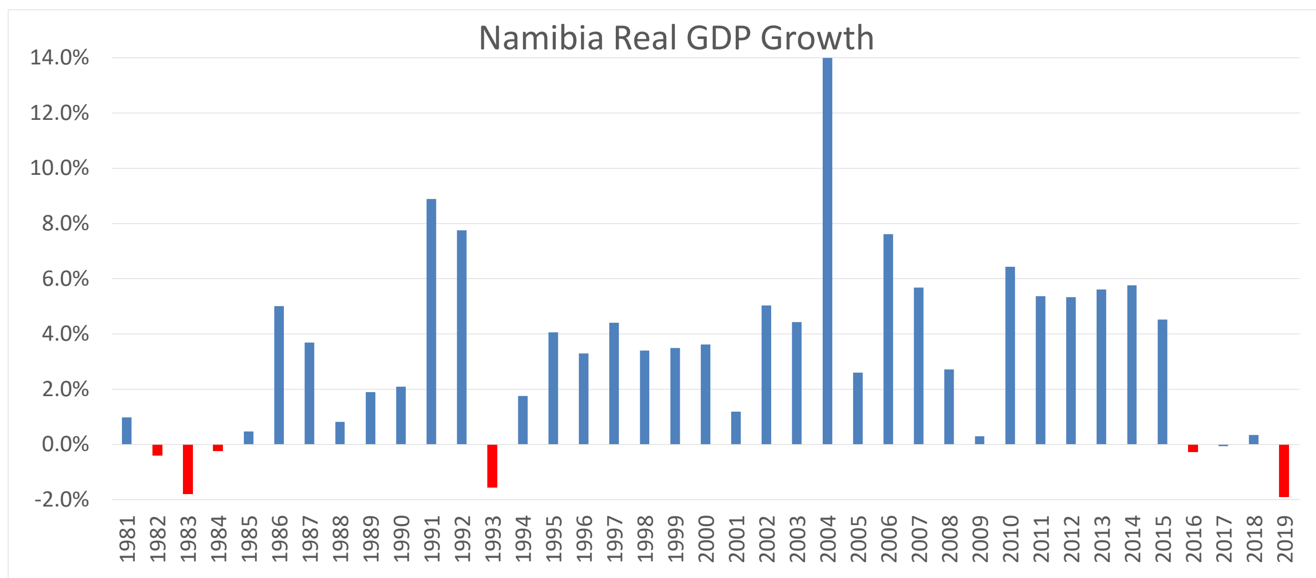
Executive Summary

Namibian GDP is likely to have contracted by 1.9% in 2019, the largest amount since the beginning of our dataset in the early 1980's. 2019 also marked the fourth year of low or negative growth in Namibia, leading us to redefine the economic crisis from a recession to a depression. The 2019 contraction was led by primary industries, with drought having a particularly adverse impact on the agriculture and forestry sector. The fishing sector is also expected to have contracted, with the Fishrot scandal adding to the industry's woes towards the end of the year. Mining and quarrying contributed the most to the contraction in primary industries due to the size of the industry. Diamond and uranium output drove most of the contraction in the sector.



Source: NSA

After the deep contraction of 2019 growth in 2020 is expected, due in large part to an expected rebound in diamond and uranium output. We forecast growth of 1.1% in 2020 followed by 1.4% growth in 2021. Primary industries are expected to be boosted by the aforementioned rebound in certain types of mining output, while the widespread rains received during February should boost the agriculture sector, especially crop production. We do not expect much growth from secondary industries such as manufacturing, water and electricity and construction as demand drivers remain absent. We similarly expect no growth overall from tertiary industries as the consumer remains weak and small businesses remain under pressure.

Investor confidence and business confidence in Namibia remain depressed due to a lack of demand and uncertain policy environment. While the president promised to expedite the tabling of the NEEEB and NIPA legislation during the 2019 Namibian economic summit, the private sector still awaits sight of these documents. The lack of clarity with regards to what the contents of this legislation is stifling business and investment from both local and foreign sources. It is likely that the legislation will be a further hurdle to doing business in Namibia even if it is just because it is an increase in regulation. Any additional hurdles to doing business will be detrimental to economic recovery and job creation, but it remains to be seen just how detrimental these specific pieces of legislation will be.

Various external headwinds remain as Brexit and Trade Wars remain a theme for 2020. However these geopolitical tensions may be trivial when compared to the impact of the coronavirus outbreak. Al ready markets have sold off in extraordinary fashion spooking even the Federal Reserve who cut US interest rates by 50 basis points in an emergency meeting on the 3rd of March. The epidemic has wreaked havoc on industrial production and trade in China and is rapidly affecting other markets around the globe. Commodity prices have come under pressure as demand from the world's second largest economy slows. The oil price has been particularly hard hit with prices dropping as the fastest pace since the gulf war in 1991. The coronavirus threat to global economic growth is still murky, but seems to be growing steadily, making the epidemic the largest external threat to a Namibian recovery.

The possibility of a coronavirus driven external shock to the Namibian economy is concerning given the lack of fiscal tools available with which to minimise the impact of such a shock. Government's budget remains stretched with a persistent deficit, large debt burden and high debt servicing costs. As such government is unlikely to be able to drive new demand in the economy or embark on large scale infrastructure expansion, which may have muted the impact of any external shocks.

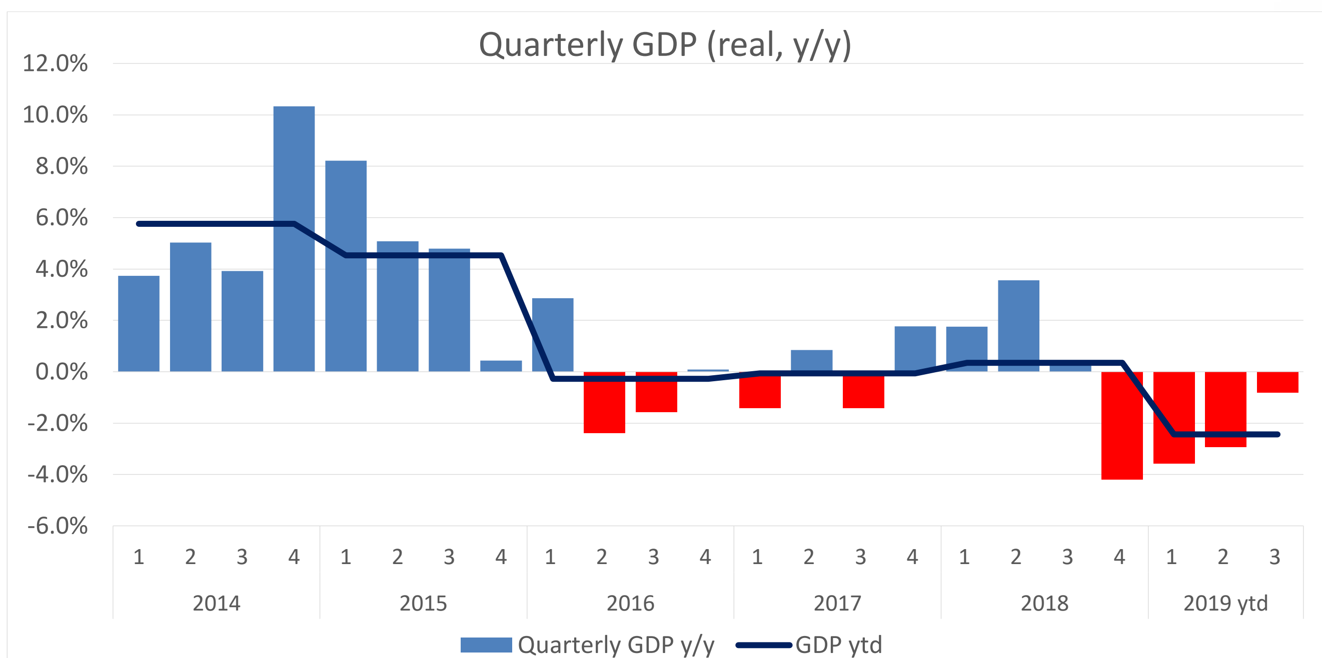
Similarly, the Bank of Namibia's (BoN) monetary policy committee has its hands tied with regards to being able to adjust policy to minimise the impact of a potential shocks as it first and foremostly needs to protect the currency peg. Luckily, as South Africa finds itself in a similarly compromised position with regards to fiscal policy and economic growth, we think that the SARB will likely pursue loser monetary policy which will enable the BoN to act appropriately. However, we remain of the view that monetary policy is likely to be only marginally beneficial in the context of a possible global recession.

Given the change in global outlook brought on by the coronavirus outbreak, a Moody's downgrade of South Africa's credit rating becomes less benign than we though it may be a few short weeks ago. After Moody's revised down expectations for South African growth for 2020 for the second time since the start of the year it has become more and more likely that a ratings downgrade is likely. Given the global turmoil we may not only see a brief spike in yields and the currency as we previously expected. A run for safety may essentially lead to a much larger spike in yields and the exchange rate and a much slower recovery to the levels seen earlier this year. This would in turn make it very difficult for either the SARB or the BoN to ease monetary policy in a bid to stimulate economic activity. Both the Namibian and South African fiscal and monetary positions are thus currently much weaker than they were going into the 2008 financial crisis which may lead to much larger shockwaves rippling through both economies should the global economic outlook continue to deteriorate. Of course, the possibility remains that the current panic surrounding the coronavirus outbreak is an overreaction and that the picture stabilises going forward and that the global economy escapes a recession. However, relying on hope alone is an uncomfortable way to start the decade.

Outturn of 2019: Mildly Depressed

At the onset of 2018 expectations for a recovery were widespread, as was our own forecast for growth of 0.9% for that year. 2018 followed two dismal years of economic performance and the recession should have been getting long winded, leading to expectations for a recovery, even if only due to base effects. Recessions typically do not last much longer than two years. Any longer and the terminology changes to "economic depression". Our 2018 Outlook document communicated our expectations for growth of 2.3% in 2019 and 3.2% in 2020, figures that now seem highly ambitious despite a low base set in the preceding years.

Our 2019 Outlook document revised down growth expectations for 2018 to 0.2% and for 2019 to 0.9% with a low base once again driving our expectations for a modest recovery. These expectations were subsequently turned on their head as the latest national accounts data for 2019 shows that the year-to-date contraction for 2019, as at the end of the third quarter, was 2.4%. This indicates that 2019 is very likely to have been the toughest year of the last four, with a large contraction off an already low base. Our view that Namibia would register low growth, but avoid a depression, seemed almost pessimistic to many at the time, especially in the public sector. The latest data now points to our base case as optimistic if anything.



Source: NSA, IJG Securities

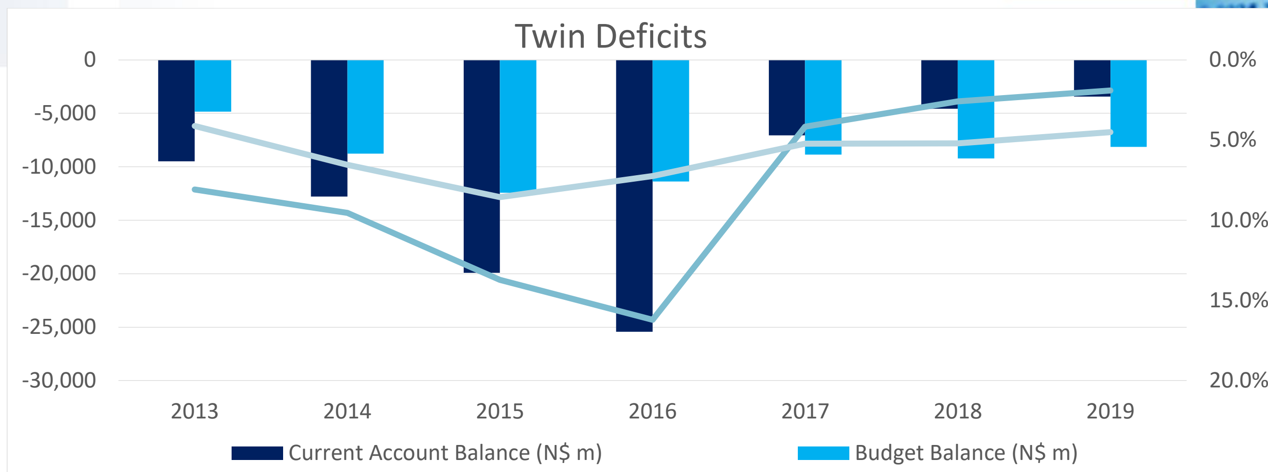
While we noted in previous Outlook documents that structural impediments to a recovery in growth were unlikely to be resolved over the short term, we did not accurately estimate the impact that this would have on future periods. Thus, while we expected low growth or a slow recovery we did not anticipate the duration of the stagnation. With Namibia entering its fifth year of low to negative economic growth in 2020 it is difficult to not define the current situation as a depression rather than recession, especially when looking at falling GDP per capita or living standards. The Namibian economy is no longer in the swings of a normal business cycle and has not been for some time. It is time to acknowledge that the Namibian economy is in a mild depression.

President Hage Geingob essentially acknowledged the abnormal nature of the Namibian economic crisis with the inauguration of the High-Level Panel on the Namibian Economy (HLPNE). The 21-member panel's overarching goal is to advise on the revival of the Namibian economy, a daunting task given the structural issues presented by large twin deficits, bloated public sector wage bill and investor unfriendly policy environment, amongst others. The panel of volunteers were also only appointed for a one-year term as the general and presidential elections effectively meant that the team could not be awarded a longer-term mandate at the time. While updates on the panel's progress have been interrupted by the holiday season, a number of positive developments were made public early on and substantial work behind the scenes. Of course, advice is only useful when acted on, and winning Cabinet's buy-in was always going to be one of the biggest challenges faced by the panel. One of the positive developments to come from the panel's efforts was the announcement that the empowerment policy (NEEEF) would be finalised and that the mandatory 25% previously disadvantaged (PDN) shareholding requirement would only apply to companies who aimed to do business with government. The finalisation of this legislation should mean that private companies have more certainty with regards to the landscape in which they operate, although this landscape will be more restrictive than before. Much like driving with the handbrake on.

The Namibia Investment Promotion Act, legislation aimed at stimulating investment, has ironically further clouded the investment landscape in Namibia since being announced in 2015, enacted in 2016, and subsequent to private sector criticism, retracted and brought under review. The president, as advised by the HLPNE, has promised a speedy enactment and that the legislation would be operational by the end of the 2019/20 financial year. Whilst little detail of the "substantive amendments" to the act have been made available to the public, the president alluded to addressing the issues of increased bureaucracy and wider ministerial interference in allowing investments into Namibia. While a positive outcome is again not guaranteed, the efforts of the HLPNE in highlighting the detriment of the policy overhang, and thus channelling the necessary resources into expediting the legislation, should be seen as one of the few positive steps taken by government in 2019.

However, on the legislative front there are many other impediments to foreign and local direct investment into Namibia which continued to act as a drag on investment during 2019. Taxation, public procurement, and exchange controls are but a few of the areas in which regulation restricted or delayed investment in our view. While the HLPNE's efforts seem to at least have gotten the ball rolling with regards to NEEEF and NIPA, the overall certainty which investors crave thus far proved unattainable.

Government finances remained precarious during the 2019 year although the budgeting process has seen improved accuracy and predictability. Revenue for the 2018/19 financial year (FY19) came in 1.4% below the revised expectations leading to a N$822 million shortfall. As expected given the economic climate, non-mining company tax and VAT revenues disappointed and as a result revenue collection was N$4.7% lower than in FY18. Revenue collection is expected to have improved since, and finance expects FY20 revenue to be more or less in line with that of FY18, up 4.5% from FY19. The poor revenue collection for FY19 coupled with the AfDB withholding disbursement of funds destined for various infrastructure projects in FY20 saw the mid-term budget used to reallocate resources toward "critical expenditure". About N$1.0 billion of the N$1.18 billion which was reallocated was sourced from the development budget, effectively backtracking on guidance for increased allocations that we noted was a step in the right direction earlier in the year.



Source: NSA, IJG Securities

Namibia started and ended 2019 with twin deficits once again. The Budget deficit for FY19 expanded to 4.8% from MoF expectations of 4.4% to GDP due to the aforementioned dip in revenues. Applying the revised nominal GDP numbers to this ratio adds 0.4 percentage points, bringing the deficit to 5.2% to GDP. This sees a continuation of the trend of deficits coming in higher than expected by the Ministry of Finance and the restatement of nominal GDP will give the IMF and ratings agencies further reason for concern. Namibia's current account deficit has at least improved substantially over the last three years from 16.2% in 2016 to an expected 2.0% in 2019. Much of this is due to growth in the nominal value of exports, supported by strong SACU revenue transfers, while imports have decreased. Much of the decline in imports is attributable to a significant drop in investment related activities and capital goods purchases, while consumer demand has stagnated. The trade deficit remains large but has dropped below the value of SACU revenue inflows, leaving the current account in a healthier state than in 2016. Capital account flows remain marginally positive meaning that net borrowing from the rest of the world continues, although at far reduced levels when compared to 2015 or 2016. This has resulted in reduced pressure on the international reserve position and by extension the currency peg. Of course, capital transfers into Namibia due to pension and insurance regulation changes have played a supportive role which may not continue for much longer.
Both Moody's and Fitch Ratings downgraded Namibia's credit rating during the year. These downgrades did not come as a surprise given the context of poor economic growth, rapidly expanding government debt, and policy uncertainty. Both ratings agencies highlighted similar issues of low growth and poor growth prospects going forward, high debt servicing costs, and significant policy uncertainty. The views expressed by the ratings agencies are shared by multinationals such as the World Bank and International Monetary Fund (IMF). Namibia's competitiveness when it comes to ease of doing business has slid significantly over the last decade, from 66th place globally in the World Bank's 2010 Ease of Doing Business report to 104th place in 2019. The IMF's article IV consultation country report for Namibia noted that there were significant structural challenges to future growth prospects and that inequality and unemployment remain persistently high.

While Brexit and trade wars continued to cause tension on the global front, the largest shock to the Namibian economy in 2019 came in the form of drought. Given the precarious nature of the fiscal position and already accommodative monetary position, the lack of significant external pressure on the Namibian economy spared some potential pain. The drought, however, had a severe impact on the agriculture sector and communities reliant on agriculture. The crop yields for the 2018/19 planting season proved poor, while national livestock numbers dropped further as farmers slaughtered and sold what they could. Namibia has been experiencing drought for the better part of the last seven years. The duration of the adverse weather conditions has exhausted many farmers', especially livestock farmers', resources over the period which resulted in a particularly difficult 2019 with many farmers forced out of the industry or into significant debt. Agriculture is the source of most of the employment in Namibia which means that the severity of the drought has had a far-reaching impact on the rest of the economy.

As can be expected after years of poor economic performance, the political arena took centre stage in 2019 was it was an election year. The major surprise in the build up to the presidential and parliamentary elections was the support gained by the independent candidate, Dr. Panduleni Itula, who seemed to draw an ever growing following as the year progressed. The paid-up member of SWAPO, a dentist by profession, successfully built a campaign around the shortcomings of the current regime which was enabled by the economic stagnation of the previous four years. While unsuccessful in winning the presidential election, Itula managed to gain over 30% of the votes, with the incumbent president seeing his share of the votes drop from 86.7% in 2014 to just 56.3%. We have little doubt that this mammoth slide is due to the poor economic performance that has characterised Geingob's first term. We also know that the overheating of the economy which played

a major role in the current crisis was fuelled during his predecessor's second term as that regime ran pro-cyclical policy. That said many of the decision makers currently occupying government offices have been around for at least the last ten years and that the incumbent regime did not take adequate steps, in our view, to restore confidence in the economy.

One of those office bearers, the former minister of fisheries and marine resources, Bernhardt Esau, now sits behind bars after the country was rocked by the so-called 'Fishrot' corruption scandal. Along with him former justice minister, Sacky Shanghala, and four others linked to the fraudulent allocation of fish quotas and bribery, spent the holiday season behind bars. The Fishrot scandal is the largest uncovered corruption scandal in Namibia's independent history and the fact that two public office bearers were imprisoned, if reluctantly so, should not be overlooked for the positive light in which this paints the justice system. Similar cases of corruption in South Africa have seen very little action against perpetrators and a reluctance from government's side to take corrective actions and improve transparency and accountability. As the rule of law is fundamental to the environment in which investor's operate as well as the kind of investor a country attracts, it is pertinent that the Fishrot case is swiftly and decisively concluded, as this is sure to be closely followed by the international community as well as potential investors.

To summarise, Namibia has likely experienced the largest annual contraction since independence in what was the fourth year of a mild economic depression in our view. Living standards have been deterioration slowly over the period as per capita GDP fell and unemployment rose. Corruption made news headlines almost as often as reports on the severity of the ongoing drought. Government finances remained under pressure with fiscal metrics such as debt services costs-to-GDP continuing to increase and developmental spend decreasing in relation to even weak nominal GDP growth. Some positive events do stand out, even if inherently negative events preceded them. The Fishrot scandal and subsequent imprisonment of the accused parties does paint the Namibian justice system in a positive light even if casting a shadow on high level officials and corruption inducing regulations. Similarly the drop in support for the ruling party and president at the parliamentary and presidential elections highlights a population waking up to the need for something to change, which may spur positive government action over the next five years.

Themes for 2020

Each year we attempt to shed some light on the broader themes impacting global economic conditions as well as Namibia in particular. Some of last year's themes make a reappearance this year, notably trade wars and Brexit. These issues are likely to impact the global economy in 2020 again, although progress has been made on both accounts.

Trade Wars

We listed the trade wars as one of our key themes for 2019 after US President Donald Trump decided in 2018 to impose tariffs on some of the US' largest trading partners in an attempt to force them to renegotiate their trade agreements with the US. While some of these disputes were resolved in the last year, such as the revised trade agreement with Canada and Mexico, a few unresolved disputes remain, and may either be resolved quickly or escalate substantially given President Trump's unpredictable nature. As such, we believe that 2020 will be another volatile year on the trade war front. The year started off with the US reaching some consensus on a path forward with China and France, but final agreement still seems a far way off.

China

For the most part of last year, news surrounding the trade war with China felt like it was in a never-ending cycle. This cycle typically started with news that the Trump administration would impose new tariffs on goods imported from China. Stock markets would then sell-off on fears that the trade war was escalating and would impact economic growth, only for the administration to hint a few weeks later that trade talks were going well and that a resolution seemed in sight. The markets would then temporarily rally on this news, again only for it to be reported a couple of weeks later that no progress was actually made, and the cycle would repeat.

Towards the end of 2019 however, the US and China announced that a "phase 1" trade agreement had been reached between the two nations. This agreement was signed on 15 January 2020. In this phase 1 deal, the US agreed to halve duties on US$120 billion worth of imports from China to 7.5% and to delay additional tariffs. In return, China vowed to purchase US$200 billion more American goods than it did in 2017, including US$32 billion worth of agricultural products over the next two years. China also vowed to stop forced technology transfer from US companies, and both countries pledged to not devalue their currencies in an attempt to benefit their exporters.

It can be however be argued that the deal does too little to address some of the more important aspects of the trade dispute, such as China's unfair state subsidies and still leaves 25% tariffs on US$250 billion of Chinese industrial goods in place. It will furthermore be challenging for China to import the additional US$200 billion worth of goods over the next two years, as US exports to China would need to rise from the US$186 billion exports reported in 2017, before the trade wars began, to around US$262 billion in 2020 and US$309 billion in 2021. Substantial trade diversion will likely need to take place as China will have to reduce imports from other countries to meet the higher import targets from the US. Australia's reserve bank has already given a warning that the country's agricultural exports to China will be negatively affected by the phase 1 deal after rising nearly 30% in 2019, with other countries are likely to be impacted similarly.

There is currently very little detail surrounding a phase 2 agreement, but, at present, it seems as though there will not be any further tariff reductions until at least after the US presidential election in November this year. The US will do a progress review 10 months after the signing of the phase 1 agreement, and will then only potentially consider any additional cuts to tariffs. There is still a long way to go for the negotiations, but the agreement is at least a step in the right direction and eases some of the uncertainty surrounding the trade war. The agreement should also reduce the trade deficit the US has with China, which Trump will see as a victory and might even prompt him to hold off any additional tariffs in the future, but it is not entirely unrealistic to assume that he will change his mind at some point in the future.

Europe

France is the latest country to get caught in Trump's crosshairs after it announced last year that it intends to impose a 'digital services tax' on companies providing digital services to French citizens. This will have an impact on US tech firms such as Amazon and Google, as the 3% revenue tax is subject to multinational companies that earn €750 million turnover globally and €25 million in France. Italy, Austria and Turkey have indicated that they intend on implementing similar taxes in the coming months. The US immediately lashed out against France and threatened 100% tariffs on US$2.4 billion worth of French goods such as wine, cheese and champagne.

An escalation seems to have been averted for now after French president Emmanuel Macron announced on 20 January that both sides agreed to a ceasefire until the end of the year. As part of the truce, France will delay the digital services tax and

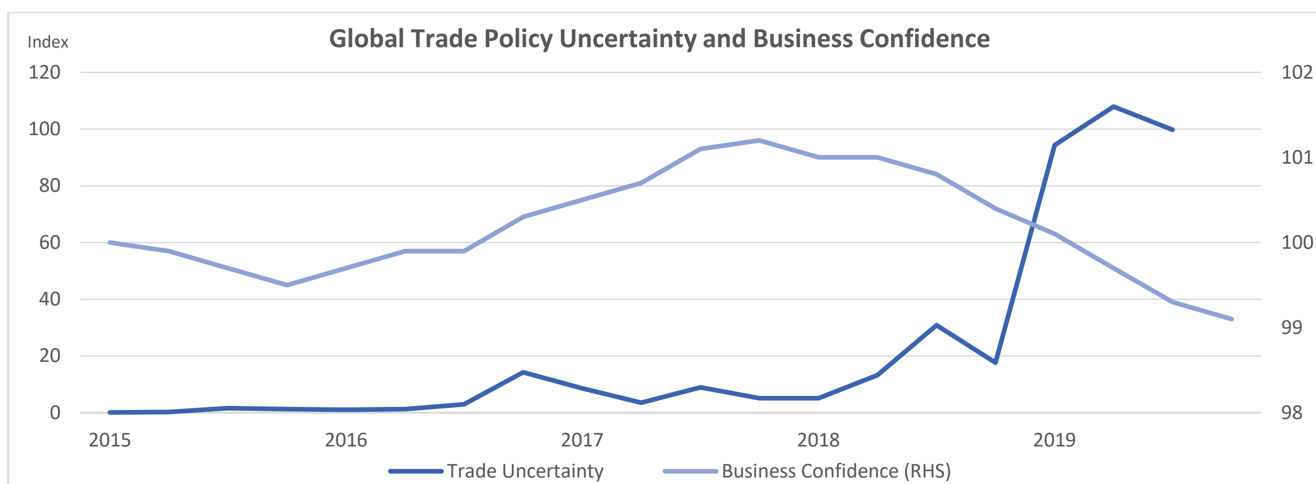
in return the US will postpone retaliatory tariffs. Instead, both sides will continue with talks on the digital services tax at the Organisation for Economic Cooperation and Development (OECD), giving some time for a consensus to be reached.

The European Union attempted to reach an agreement on a digital services tax in 2019, but this required unanimity among the EU members. The plans were however later abandoned due to opposition from countries like Ireland and Luxembourg that house several of the large US tech companies' European headquarters. Trade relations between the US and EU are already under strain after the US' decision in 2018 to impose tariffs on European metals, its decision to impose tariffs on US$7.5 billion worth of European goods after a World Trade Organisation dispute over Airbus subsidies, and threats to implement tariffs on European automobile exports.

While the temporary trade truce with France does bring some relief to the trade tensions between the US and EU, the risk still remains that tensions will escalate significantly if no consensus is reached at the OECD, or if the US decides to impose tariffs on European automotive exports, which could knock 0.25 percentage points off the Eurozone's economic growth.

Impact on the Global Economy

The US' trade wars and protectionist policies have a severe impact on the global economy, as these weigh on business confidence and increase uncertainty. Such uncertainty and lack of confidence discourages businesses from investing, often causing them to delay major expansionary projects until the uncertainty has been cleared up.



Source: World Bank, IJG

The World Bank has announced that the easing trade tensions between the US and China is unlikely to result in a rapid improvement in global economic growth as the terms of the phase 1 deal will be difficult to achieve and that the risk remains that trade tensions between the two nations re-escalate. This will not only affect their economies, but also the rest of the world. While the Federal Reserve has resolved to ease monetary policy to soften the blow from the trade wars, little room remains for them to continue doing so going forward.

Trade wars lead to disrupted supply chains causing businesses to operate less efficiently and in turn weighing on earnings and output. Tariffs cause prices of products to rise due to higher input costs which manufacturers typically pass along to consumers. We explained in our Economic Outlook 2019 that tariffs lead to a reduction in consumption which in turn means that living standards are decreasing at the margin, all else being equal.

Tariffs usually also have an impact on countries like Namibia that are not directly involved in the trade wars. Less demand by the advanced economies for resources hurt small, resource-rich countries that are sensitive to lower commodity prices. Namibia is particularly prone to the impact from lower commodity prices as it is a small, open economy, with a trade deficit. A weak fiscal position means that external shocks such as a decline in commodity prices will add further pressure to an already struggling Namibian economy.

Brexit – Recap of 2019

As expected, Brexit caused a significant amount of political turmoil in 2019, as the UK failed to sign a deal with the EU, Theresa May stepped down as PM, Boris Johnson became leader of the Conservative party and secured a landslide victory in an early snap election.

After her withdrawal agreement was voted down by the House of Commons in January 2019, Theresa May went back to Brussels to negotiate changes to the 'backstop' solution to avoid a hard border between Ireland and Northern Ireland. May secured a new agreement with the EU, but the House again voted it down in March after it came to light that although the new agreement significantly reduced the risk that the UK would be stuck in the backstop, the UK would still not be able to leave the backstop without permission from the EU.

In April, the Brexit deadline was pushed back to 31 October as May failed to push a deal through the House. Theresa May eventually resigned on 7 June as the impasse in the heavily divided and factionalised parliament continued. Boris Johnson became leader of the Conservative party and prime minister in July after winning the leadership contest quite convincingly. He however lost his parliamentary majority and opposition parties as well as rebels in his own party took control of the Brexit process, blocking his attempts of passing through a deal.

December Election

On 28 October last year, the EU confirmed that the Brexit deadline would be extended for a third time. This time until 31 January 2020, causing the prime minister to break his vow of rather being "dead in a ditch" than to ask for another Brexit delay beyond 31 October. This delay convinced both sides of the House to hold an early election on 12 December.

During the election campaign, Labour pledged to renegotiate the withdrawal agreement with the EU and then offer it as an option in a referendum together with an option to remain in the EU. The Liberal Democrats and Scottish National Party also proposed another referendum with the option to remain in the EU. The Conservatives' assurance to "get Brexit done" under the terms of Johnson's withdrawal agreement was however the choice most favoured by voters. The Conservatives scored an overwhelming victory, giving the party its biggest majority since 1987. The Conservatives pledged to increase public spending by £13.8 billion per year and confirmed plans to spend another £33.9 billion per year on the National Health Service. The party also decided to keep the corporate tax rate unchanged at 19%, and to not raise income tax rates.

Although the complications surrounding Brexit are still far from resolved, the election result has at least ended the political impasse that has plagued the parliament the last few years. The election result has already allowed Johnson to pass his Brexit deal through parliament quite easily in January this year. Johnson's revised deal will allow the UK to negotiate its own trade agreements with countries around the world. In order to overcome the controversial backstop issue, there will be a customs border between Northern Ireland (which is part of the UK) and the Republic of Ireland (which will remain part of the EU), but there will not be checks on that border. Physical checks will be at what is essentially a customs border between Great Britain and the island of Ireland, with checks carried out at points of entry into Northern Ireland. No taxes will be paid on goods moving between Great Britain and Northern Ireland, "unless they are deemed to be at risk of entering the EU" (i.e. the Republic of Ireland).

The election result has also pushed up business confidence to the highest level in more than three years and, according to the Institute of Directors, ensures that companies now have a framework around which they can plan their expansionary projects.

Southern Africa

In September 2019, Namibia, together with five other Southern African countries, signed a new trade agreement with the UK, as the current EU-SADC Economic Partnership Agreement (EPA) will no longer apply to the UK once it leaves the EU. The new agreement, which will be referred to as the SACU (Mozambique)-UK Economic Partnership Agreement, will kick in after the transitional period during which the UK will negotiate its final terms with the EU. The new agreement essentially replicates the existing terms of the current agreement, and will ensure that trade continues between the countries, whether the UK reaches a deal with the EU by the transition period's deadline of 31 December 2020 or not.

Brexit – 2020 Expectations

Despite the Conservative party's landslide victory in December and Prime Minister Boris Johnson easily pushing his withdrawal agreement through parliament in January, the road ahead for the UK to fully leave the EU will be anything but straightforward.

The UK left the EU on 31 January 2020. It has now entered an 11-month transition period which is set to end on 31 December 2020. During this period, the UK will no longer be a member of the EU, but will still follow the EU's rules and remain a member of the single market and customs union. The transition period will allow the UK to continue its current relationship with the EU while allowing negotiations to take place to determine the future relationship between the two parties. It will also ensure that businesses only need to adapt to the new rules once the future deal is agreed.

Despite Johnson remaining adamant that a deal with the EU is possible by December 2020, the EU remains very sceptical as both EU chief Ursula von der Leyen and EU chief negotiator Michel Barnier have cautioned that it would be highly unlikely to reach a comprehensive trade deal by the end of 2020. Although the likelihood of a 'no deal' Brexit has shrunk considerably, some version of a 'no deal' Brexit remains a possibility as Johnson ruled out any extensions to the above deadline. The deadline for the transition period can be extended by up to 2 years, but this must be agreed to by 30 June, as per the withdrawal agreement.

Negotiations are likely to be complicated as both parties will be unwilling to compromise on a number of key issues. A particular concern for the EU is that the UK will cut labour, environmental and financial standards to be a low-regulation, low-tax competitor to the bloc. For the UK government, Brexit is an opportunity to depart from the EU's strict rules and regulations, and to negotiate its own trade deals with the rest of the world, while maintaining a close relationship with the bloc. While the EU seems to be open to an agreement that will allow free trade to continue between the regions, it will demand that there be a level playing field and will not allow the UK to have an unfair competitive advantage enabling it to dump cheap goods. These differing views on what exactly the post-Brexit relationship will be will certainly complicate negotiations, putting more pressure on an already tight deadline. Our base case scenario is thus that if Johnson sticks to his commitment to not extend the deadline of the transition period, that negotiations this year will be primarily focused on the larger issues surrounding the post-Brexit relationship (such as the free flow of goods) and that any unaddressed issues will be covered by smaller, temporary deals until consensus is reached in the coming years.

Another sticking point of the negotiations will be fishing rights. Several EU members, such as Germany, France, Netherlands etc. would want continued access to the UK's fishing waters as part of the free trade deal. It is likely that a trade-off will be made whereby the EU allows the UK's financial services sector continued access to European clients in exchange for fishing rights to EU members.

During the year the UK further aims to secure a possible free trade agreement with the US. US President Donald Trump has repeatedly shown interest in such a prospect, citing that trade between the regions could increase "three to four, five times", although this remark should be taken with a grain of salt. Trump is known to be unpredictable when it comes to trade agreements and will likely have a protectionist stance. Trump has been pushing the UK to ditch a number of EU regulations, particularly on food standards, in order for the US to export products such as chlorine-washed chicken and hormone-treated beef. Should the UK pursue a trade deal with the US, it will need to do so with careful consideration as reducing product standards could have negative implications for the trade deal it is trying to negotiate with the EU. It is possible that Johnson will prioritise a trade deal with the US to use as leverage when negotiating with the EU, possibly pressuring the EU to make compromises.

As for Namibia, we expect the new SACU (Mozambique)-UK Economic Partnership Agreement to be ratified without any obstacles or delay and for trade between SACU and the UK to continue effortlessly, irrespective of how the UK's other negotiations play out.

The biggest risk to all of the UK's negotiations is that the talks fail with no agreement reached which would see the UK return to World Trade Organisation rules. Based on the above, the drama surrounding Brexit is thus unlikely to quiet down in 2020, and we expect a few disputes between the EU and UK due to the complexity of what needs to be negotiated in a short amount of time.

Corona Virus

The coronavirus (COVID-19) outbreak is shaping up to be a major theme for 2020 with markets already selling off due to manifested and further anticipated supply side shocks. While demand may be affected to a lesser extent, production from especially China has dropped off and is likely to remain weak as the virus spreads. Our associates at MacQuarie estimate that China accounts for about a quarter of global industrial production and it is likely that Chinese industrial production registers a substantial contraction in 2020, which will impact global output. How severe exactly the impact of COVID-19 will be on global output is very much a guessing game at present but it is likely to put much pressure on an already slowing global economy.

The coronavirus is highly contagious, although precisely how contagious is still being determined as scientists battle to understand the disease. What is known is that it spreads mainly from person to person and may take as long as almost three weeks to begin showing symptoms. Some patients appear to be completely asymptomatic, and a relatively low proportion (when compared to more severe diseases such as Ebola) of people that are infected eventually succumb to it. These last two points are what makes the coronavirus such a difficult illness to contain and why some scientists expect between 40% and 70% of the world's population to contract the disease at some point in time. Infected individuals may spread the disease for up to two weeks before showing symptoms, making detection particularly difficult and containment almost impossible. The bottom line seems to be that the coronavirus will spread far and wide which will impact economies adversely.

As noted Chinese industrial output has already suffered and is likely to remain under pressure for some time due to the manner in which attempts to contain the disease have affected the means of production. People have been quarantined and connections between cities and the outside world have been cut off. This in turn impacts Chinese demand for inputs, specifically commodities. Already we see the impact in the oil price as airlines slow traffic to and from China, and ports restrict trade. The impact on production is likely to spread to many other countries as Chinese inputs find their way into the final products produced by these countries. Similarly, other countries produce inputs used in the Chinese manufacturing process. This line of thinking leads us to assume a major impact in trade of goods, other than commodities, will also follow.

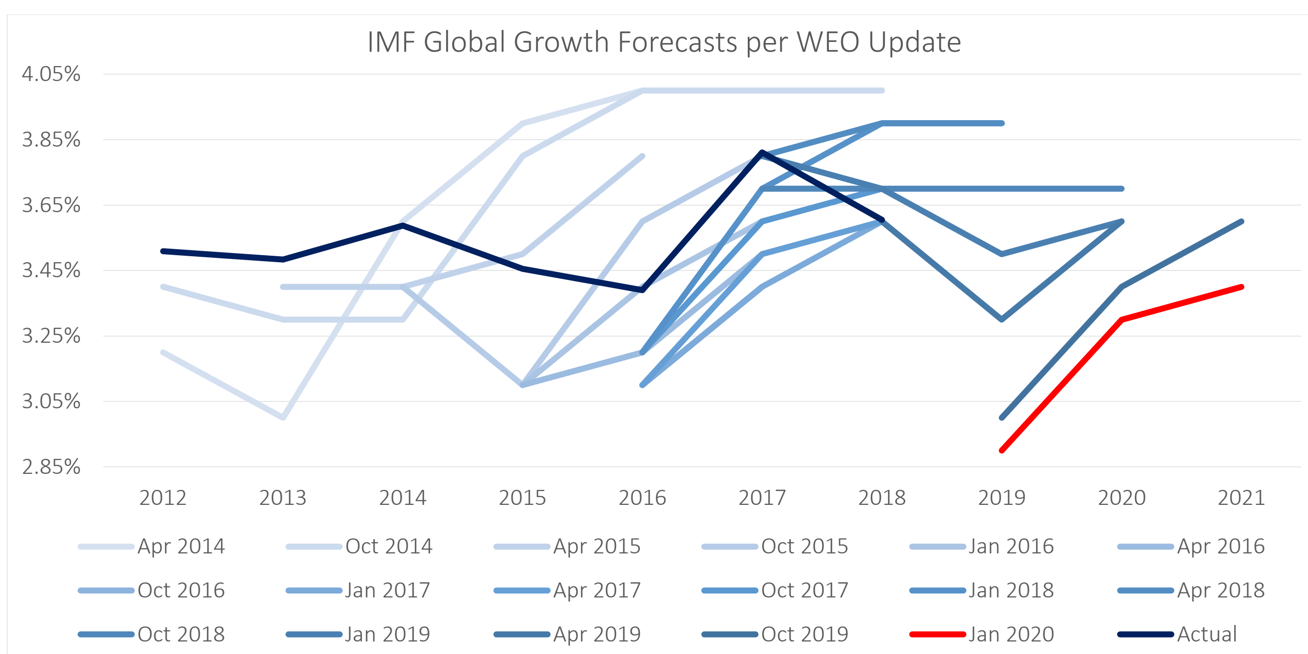
As Namibia is quite heavily dependent on commodity exports it follows that the coronavirus outbreak, and the measures being implemented both on a personal and sovereign level in other countries, will have an impact on the Namibian economy. And as stated earlier it is particularly difficult to determine what this impact is likely to be or how wide the impact will be on industries other than the mining sector, like tourism for instance. While Chinese tourism is not particularly important to the Namibian tourism sector, as the virus spreads to Europe and other markets (already underway) it is likely to become more of a headache for the industry. Similarly, the logistics sector might see a decline in goods shipped into Namibia from China and other jurisdictions. An epidemic of the scale referred to in the second paragraph is likely to lead to unexpected costs for government as well, although these will likely only be a minor drag on the budget if at all.

In terms of quantifying the likely impact of the coronavirus there are a myriad of unknowns at present as we learn about the virus. A vaccine is anything from 12 to 24 months from finalisation according to experts, adding to the uncertainties already discussed. These uncertainties weigh on an ever more fragile global economy. This at a time when Namibia has precious little room in the purse with which to mitigate the impact of external shocks. Thus, a severe epidemic could have a disproportionate impact on the Namibian economy in the current climate, even if the virus itself never reaches here. That is not to say that the impact will be large, just that it is likely to have a larger impact than if the fiscal position was healthy.

Global Economy

In its January 2020 World Economic Outlook (WEO) update, the International Monetary Fund (IMF) revised its global growth expectations for 2019 down by 0.1 percentage point off its estimate of October 2019. As such, global growth is expected at 2.9% for 2019, the lowest rate since the financial crisis in 2008. Uncertainty stemming from the trade wars, weather-related disasters and country-specific shocks in a few key emerging market economies such as India, South Africa and Mexico, is expected to have translated into lower than expected growth in the third quarter of 2019. The IMF however believes that global growth rates would have been 0.5 percentage points lower in 2019 had it not been for a global shift towards more accommodative monetary policies.

Global growth for 2020 is projected to accelerate to 3.3%, and 3.4% in 2021, as the IMF believes that there are signs that global growth may be bottoming out. Both these rates have however been revised down from the IMF's October growth estimates of 3.4% and 3.6% for 2020 and 2021, respectively. The lower global growth prospects mostly stem from a reassessed growth forecast for India, which is facing the slowest expansion in more than a decade. As the graph below illustrates, over the past few years expected increases in the rate of global growth have not materialised and growth expectations have been revised down with each new update.

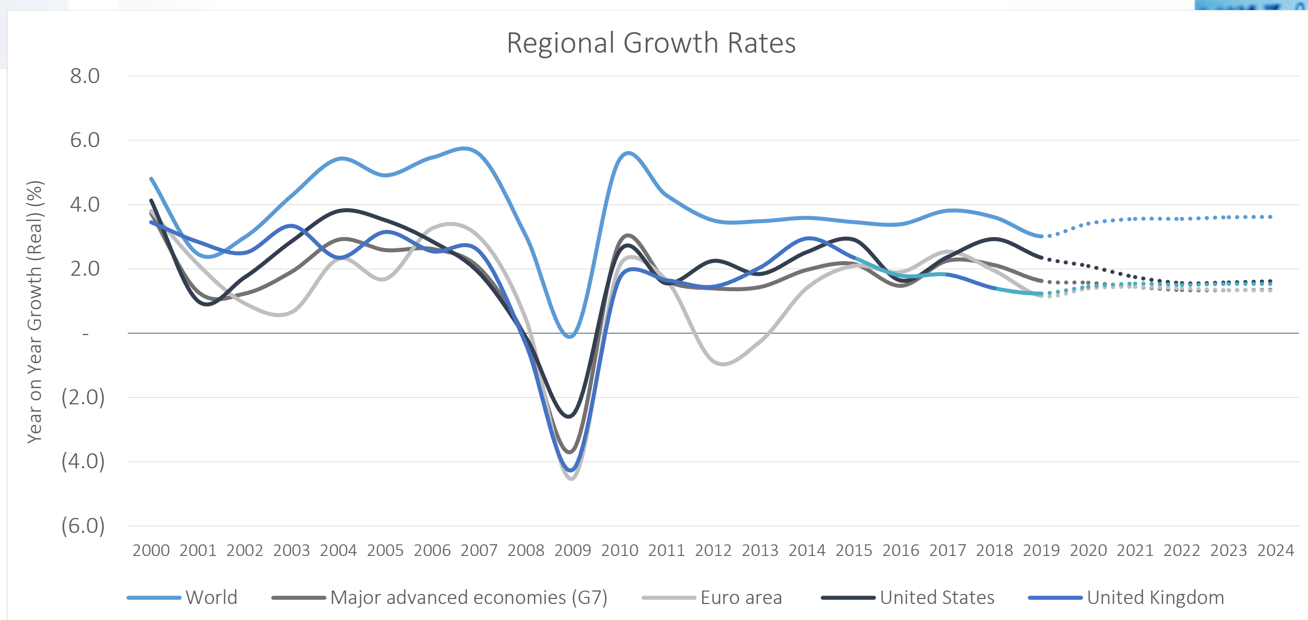


Source: IMF, IJG Securities

While downside risks to global growth remain, the outlook is less skewed toward negative outcomes than it was two or three months ago. The likelihood exists that trade tensions between the US and China will re-escalate but the 'phase 1' deal does at least ease some of the uncertainty surrounding the trade war, and has led to a recovery in market sentiment. In Europe, the risk of the UK crashing out of the EU without a deal has been eliminated after the Conservative party won December's election with a landslide. Discussions about the post-Brexit relationship between the UK and EU are however likely going to be filled with challenges as each side would like to secure the best deal possible. Geopolitical tensions (especially between the US and Iran), social unrest and weather-related disasters do however still hold risk to the improving global growth outlook.

Developed Markets

The IMF expects developed market growth to come in at 1.6% in 2020 and 2021. The 2020 growth figure is a minor downward revision from October 2019's forecast of 1.7%. The downward revision is mostly a result of weaker growth forecasts for the United States, Eurozone, United Kingdom and some Asian economies such as the Hong Kong Special Administrative Region, the latter of which has been crippled by ongoing protests, plummeting tourist numbers and the trade war.



Source: IMF, IJG Securities

United States of America

Fears that the US economy will enter a recession spiked in 2019 after yield curve inversion stirred a wave of economic pessimism. These fears have since been tamed for the most part after a series of rate cuts and balance sheet expansion by the Fed helped to buoy sentiment despite the fears that the trade war between the US and China would continue to escalate. The IMF estimates that the US economy expanded by 2.3% in 2019, and while this is a slowdown from the 2.9% growth experienced in 2018, it is an indication of the US economy's resilience.

The US economy is expected to extend its decade-long run of growth as the IMF projects growth of 2.0% in 2020 and 1.7% in 2021. The 2020 growth forecast is a 0.1 percentage point downward revision from the IMF's October 2019 forecast. Job gains are expected to slow, and the support provided by accommodative monetary policy is expected to fade. However, a tariff truce with China until after the presidential election in November does at least restore investor confidence by providing short term certainty and paves the way for a continuation in the late phase expansion in the US.

Eurozone

The Eurozone is expected to continue growing at a muted pace of 1.3% in 2020 (representing a 0.1 percentage point downward revision) before growing at a somewhat quicker pace of 1.4% in 2021. Europe has been adversely affected by the US' trade wars both directly, through tariffs on steel and other products, and indirectly, through the knock-on effects of US tariffs on China which has weighed on Europe's manufacturing industry. A particularly large risk for the EU this year will be if President Trump follows through with his threats of imposing tariffs on European automotive exports. This will undoubtedly have a significant impact on Germany, whose automotive industry has already come under pressure over the last few years due to revised auto emission standards.

The European Central Bank (ECB) signalled at its first meeting of 2020 that it expects interest rates to stay at their current levels for some time as it launched a review of its monetary policy strategy. Inflation in the Eurozone is expected to pick up moderately, but to remain within target ranges. The ECB is expected to continue with quantitative easing efforts for the medium-term.

United Kingdom

With the House of Commons finally managing to pass the withdrawal agreement to start the process of Brexit, 2020 is set to be another defining year for the UK's economy. Although a long road of negotiations still lies ahead in order to determine what the UK's post-Brexit relationship will be with the remaining 27 member states, the reduced uncertainty and the prospect of a no-deal exit have been almost completely eliminated and should provide the economy with some room for growth, if only modestly so. The IMF left its growth forecast for the UK unchanged from its October growth expectations of 1.4% in 2020 and 1.5% in 2021. The growth forecast is however dependent on the UK having an "orderly exit" from the EU. An orderly Brexit should strengthen the pound, restraining import prices and keeping inflation below target.

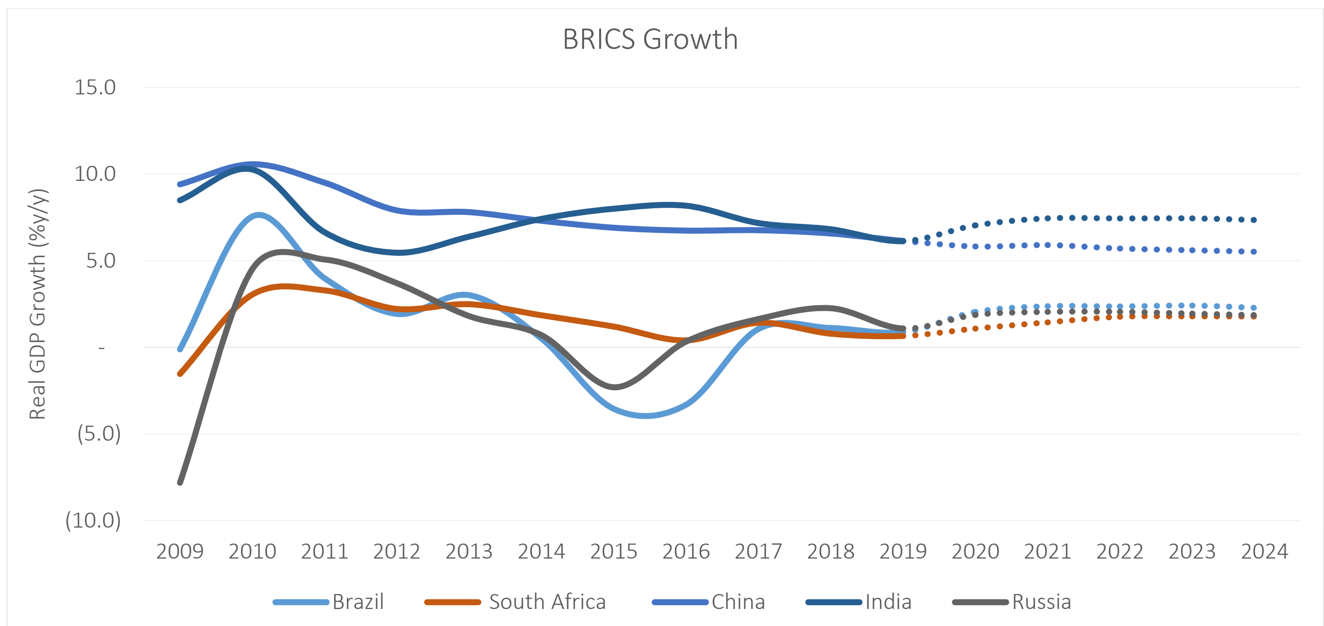
Japan

The IMF expects Japan's economy grew by 1.0% in 2019 (0.1 percentage point higher than was expected in October 2019). Growth is however expected to moderate to 0.7% in 2020, a 0.2 percentage point upward revision from the IMF's previous forecast. The upward revision is attributed to the US$120 billion economic stimulus package introduced by Prime Minister Shinzo Abe in December. As the impact of the fiscal stimulus wears out, growth is expected to weaken to 0.5% in 2021.

Developing Countries

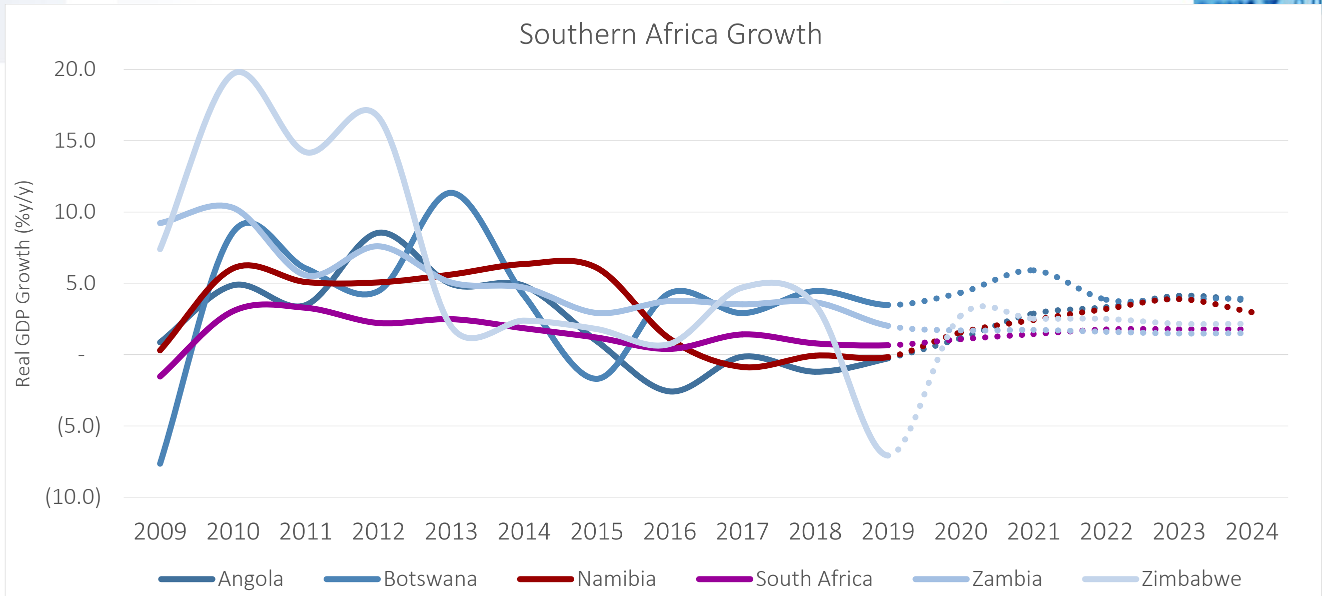
Growth for emerging economies is estimated to have come in at 3.7% in 2019. Growth is forecast to increase to 4.4% in 2020 and 4.6% in 2021. These figures constitute a downward revision of 0.2 percentage points for both years. This lower forecast is mostly due to weaker growth prospects for India, whose economy has been suffering after non-bank financial firms, known as shadow banks (which fund everyone from small entrepreneurs to large enterprise), unexpectedly started to default on their bonds. Wholesale and retail trade services suffered severely as a result.

Chinese economic growth has been slowing for the past decade and is expected to have dropped to 6.1% in 2019, the lowest level in 29 years. The IMF expects growth to moderate further to 6.0% in 2020 and 5.8% in 2021. China's 2020 growth forecast has been revised upwards by 0.2 percentage points as a result of the 'phase 1' trade deal with the US, which should provide short-term relief. However, unresolved trade disputes and tariffs are still present acting as a drag on exports. The recent outbreak of the deadly and contagious coronavirus is feared to affect economic growth as it adversely impacts consumption, travel and manufacturing.



Source: IMF, IJG Securities

Growth in sub-Saharan Africa is expected to rise from 3.3% in 2019 to 3.5% in both 2020 and 2021. Forecasts for lacklustre growth in South Africa and Ethiopia have resulted in a 0.1 percentage point lower growth forecast for sub-Saharan Africa in 2020 and 0.2 percentage points weaker in 2021.



Source: IMF, IJG Securities

South Africa's economy is expected to have grown by a mere 0.4% in 2019. The IMF's forecast is for growth to pick up slightly to 0.8% in 2020 and 1.0% in 2021. The 2020 and 2021 growth figures have been revised downward by 0.3 and 0.4 percentage points, respectively, from the October forecast. The IMF attributes the lower growth forecast to "structural constraints and deteriorating public finances that are holding back business confidence and private investment". One of the biggest drags on the South African economy are rolling power blackouts resulting from state-owned power utility Eskom's inability to provide electricity on an uninterrupted basis. The South African government seems unwilling to make the difficult, albeit necessary, decisions required to turn the entity around (such as privatising it or reducing its bloated workforce). The government has, until now, not responded to calls from the private sector to lift the requirement that institutions buy electricity from Eskom, instead of producing it themselves or allowing them to buy it directly from independent power producers. This puts further strain on an already weak economy, hurting key industries such as mining and manufacturing. A credit ratings downgrade from Moody's this year is inevitable, in our view, as the SA government has thus far failed to cut down on expenditure and to implement favourable reforms to revive economic growth.

Supply Side Growth

Our forecast begins with a "nowcast" of 2019 as usual. Official data for 2019 is available only as far as Q3 and we expect sizable revisions to come through before final national accounts data for the year is made available late in 2020. The nowcast provides us with the base for the forecasting process as well and determines the extent of base effects exerted on the forecasts.

We expect a contraction of around 1.9% for 2019 once the final national accounts data is made available. Much of this contraction is expected to be driven by primary industries driven by poor agricultural performance due to drought and poor performance in the mining sector driven by uranium and diamond output decreases. Overall we expect a contraction of around 9.5% in primary industries in 2019. These industries are Namibia's export earners and play an important role in the international reserve position and trade balance and thus the stability of the Namibian economy.

We nowcast only 0.2% growth in secondary industries in 2019, with slight growth in manufacturing but contractions in both electricity and water and construction. We expect construction activity to register at pre-2013 levels in real terms for the third year in a row in 2019. While the industry is transitory in nature, this is an unprecedented slide, and activity is expected to be less than half of what it was in 2015. Manufacturing growth is expected to have remained relatively subdued in 2019, although avoiding a contraction in our nowcasts for the year.

Our expectation is for tertiary industries to have registered a modest contraction of 0.6% in 2019, the third contraction in a row. The main drags are expected to be public administration and defence and wholesale and retail trade. Contractions in these industries are expected to be partly offset by real estate and business services and information and telecommunications. Poor performance in the tertiary industries stems from poor consumer and business confidence. A rapid decrease in government spending as the economy cooled saw many businesses shutting their doors or downscaling their activities which led to an increase in unemployment. The increase in unemployment or lack of job security which accompanied this process saw credit extension decline rapidly as a result, putting further breaks on the economy. The lack of business and consumer confidence that Namibia has experience over the last four years was still very much prevalent in 2019, with little done to address the underlying causes.

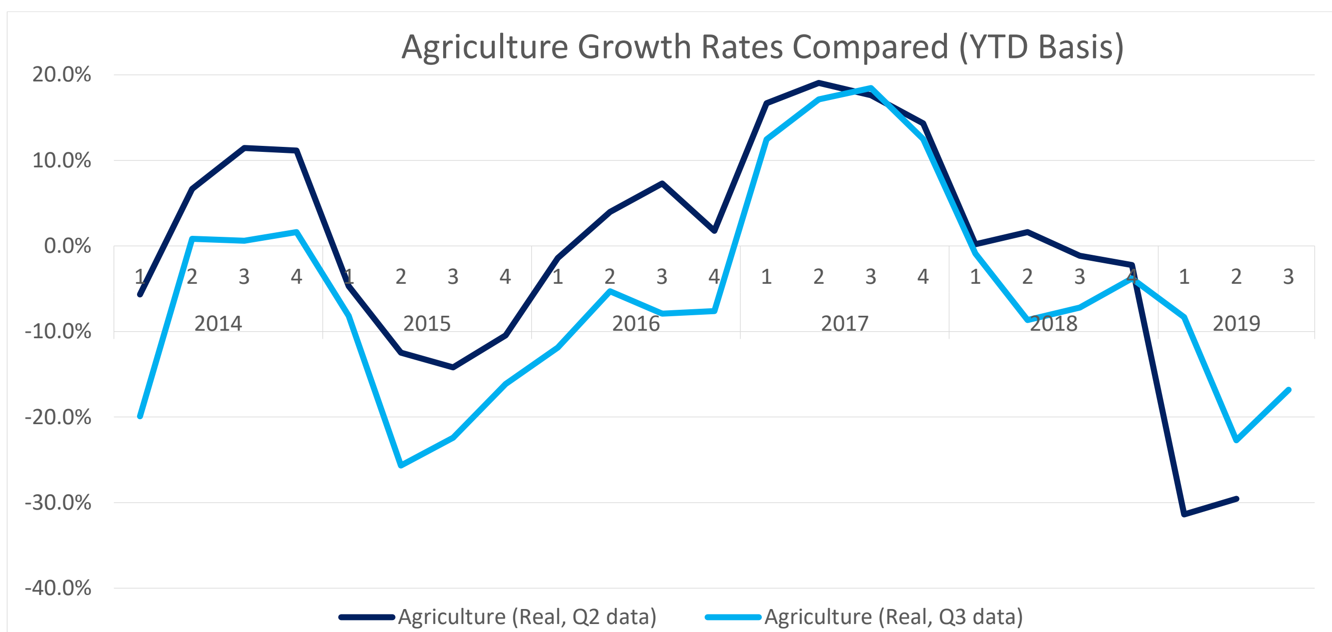
Real GDP Growth Rates

Industry	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Actual					Nowcast	Forecast			
Agriculture and forestry	1.6	-16.1	-7.6	12.5	-3.8	-12.3	5.5	1.5	2.0	2.3
Livestock farming	-8.0	-18.2	-5.0	9.7	-0.8	-14.6	2.0	3.0	4.0	4.0
Crop farming and forestry	15.0	-13.8	-10.4	15.7	-6.9	-9.8	9.2	0.0	0.0	0.4
Fishing and fish processing on board	9.5	-9.2	11.7	0.8	0.1	-1.2	0.0	0.0	0.0	0.0
Mining and quarrying	-5.2	-0.9	-10.7	14.2	16.0	-11.0	8.7	0.8	6.0	5.7
Diamond mining	6.7	-6.5	-10.9	14.5	15.1	-14.6	13.0	0.0	7.6	6.9
Uranium mining	-9.9	-18.1	13.6	23.4	33.4	-21.6	18.0	6.2	6.4	6.6
Metal ore mining	0.5	157.1	-34.3	-26.3	0.8	2.7	-14.6	-2.9	0.0	0.0
Other mining and quarrying	-36.3	-50.7	25.0	63.7	13.4	8.7	0.0	0.0	2.5	2.5
Primary industries	**-1.1**	**-6.3**	**-6.0**	**11.0**	**8.4**	**-9.5**	**6.4**	**0.8**	**4.1**	**4.0**
Manufacturing	2.7	-3.1	10.2	-1.5	0.3	0.9	-1.0	0.9	1.3	1.7
Meat processing	-28.4	10.7	3.4	1.1	-1.4	14.6	-18.2	2.0	2.1	3.0
Grain Mill products	21.8	25.4	3.5	8.1	1.9	0.0	-0.5	4.0	1.7	2.5
Other food products	13.2	-14.7	10.6	-5.2	5.1	1.0	-0.3	2.2	1.5	2.2
Beverages	-11.6	7.0	5.0	-4.2	4.7	2.5	2.5	2.5	1.5	2.5
Textile and wearing apparel	-2.7	8.0	-1.9	11.3	0.9	2.0	0.0	2.0	2.0	2.0
Leather and related products	40.2	21.3	-7.6	-1.6	4.5	-0.3	-0.3	-0.3	-0.3	-0.3
Wood and Wood product	7.4	-1.2	-4.8	8.6	-12.5	4.5	-1.7	-1.7	-1.7	-1.7
Publishing and Printing	21.7	13.7	-8.6	12.1	-13.2	0.7	0.7	0.7	0.7	0.7
Chemical and related products	7.2	-4.4	-12.7	-18.9	-7.2	3.6	-3.5	0.0	2.5	2.5
Rubber and Plastics products	9.4	12.6	-3.8	-12.1	7.0	3.3	0.0	0.0	0.0	0.0
Non-metallic minerals products	11.2	10.6	-6.1	-17.7	-5.1	4.0	2.6	2.6	2.6	2.6
Basic non-ferrous metals	-7.8	-31.6	25.7	4.1	-4.0	5.4	-11.0	-5.0	-5.0	-5.0
Fabricated Metals	4.0	3.4	-7.8	-24.6	5.5	0.0	0.0	0.0	0.0	0.0
Diamond processing	26.8	35.3	119.9	11.4	-1.1	-14.6	13.0	0.0	7.6	6.9
Other manufacturing	-6.6	5.2	-0.4	-0.5	-4.6	3.1	2.5	2.5	2.5	2.5
Electricity and water	5.2	5.6	21.8	-14.9	6.6	-1.8	3.5	2.0	2.5	2.5
Construction	40.8	22.7	-41.1	-23.1	-5.4	-2.1	4.6	2.5	3.2	4.5
Secondary industries	**10.5**	**4.2**	**-4.0**	**-7.0**	**0.1**	**0.2**	**0.3**	**1.3**	**1.7**	**2.2**
Wholesale and retail trade, repairs	12.5	6.9	1.5	-6.8	-6.3	-3.1	-0.1	1.5	2.0	2.5
Hotels and restaurants	11.1	4.0	4.3	-1.4	0.4	0.5	-0.8	2.8	3.0	3.0
Transport, and communication	9.9	19.5	4.3	-4.8	-2.3	2.1	1.7	2.0	2.4	3.3
Transport	11.3	25.1	7.4	-4.0	-5.0	2.5	2.1	2.6	3.2	4.0
Storage	5.8	3.2	-6.6	-7.9	8.9	0.7	0.0	-0.2	-0.7	0.2
Information & Telecommunication	2.9	11.6	6.0	6.3	-1.6	7.7	2.5	2.7	3.0	3.0
Financial intermediation	10.7	2.1	1.1	3.7	-0.5	0.5	1.1	2.5	3.0	4.0
Real estate and business services	3.1	3.5	2.7	2.6	2.7	5.9	1.3	1.8	2.5	3.0
Professional, scientific and techical services	5.0	15.8	-5.1	-2.6	-3.9	-2.0	0.0	0.0	0.0	0.0
Administrative and support services	-0.4	6.6	-16.1	-2.2	-4.4	0.2	1.0	1.5	2.0	2.0
Arts, Entertainment & Other Service activities	8.0	0.6	3.0	-1.3	-9.8	-2.4	0.0	0.0	0.0	0.0
Public administration and defence	-0.1	16.1	-0.1	3.5	0.8	-4.2	-3.0	0.0	1.5	2.0
Education	8.3	-2.5	3.4	-2.0	1.2	-0.7	0.6	2.0	2.0	2.0
Health	11.2	19.5	9.8	6.1	-5.8	1.1	1.4	3.5	3.5	3.5
Private household with employed persons	5.5	1.7	1.4	1.0	-2.5	-0.5	0.0	2.0	2.2	2.5
Tertiary industries	**7.1**	**7.3**	**1.9**	**-0.1**	**-1.6**	**-0.6**	**0.0**	**1.6**	**2.2**	**2.6**
Less: Financial intermediation services indirectly measured										
All industries at basic prices	**6.2**	**4.2**	**-0.6**	**0.3**	**0.4**	**-2.1**	**1.2**	**1.4**	**2.5**	**2.8**
Taxes less subsidies on products	1.0	8.8	3.1	-3.7	-0.6	0.0	-0.7	1.0	1.5	1.5
GDP at market prices	**5.8**	**4.5**	**-0.3**	**-0.1**	**0.3**	**-1.9**	**1.0**	**1.4**	**2.4**	**2.7**

Primary Industries

Agriculture

Agriculture in Namibia has been through a tumultuous time with much of the last 7 years being classified as severe drought. The quarterly growth chart illustrates this, with 2015, 2016, 2018 and 2019 registering successive contractions. Bar 2017 rainfall has been poor and sparse since the 2013 season, taking its toll on crop and livestock farming. Farming in Namibia has always been challenging due to low rainfall, but particularly so during the last seven years. Anecdotal evidence suggests that a large number of farmers have exited the industry or switched to tourism to supplement their livelihoods. The cost of farming has also been high for those that have survived the period as inputs become more expensive during periods of scarcity.



Source: NSA

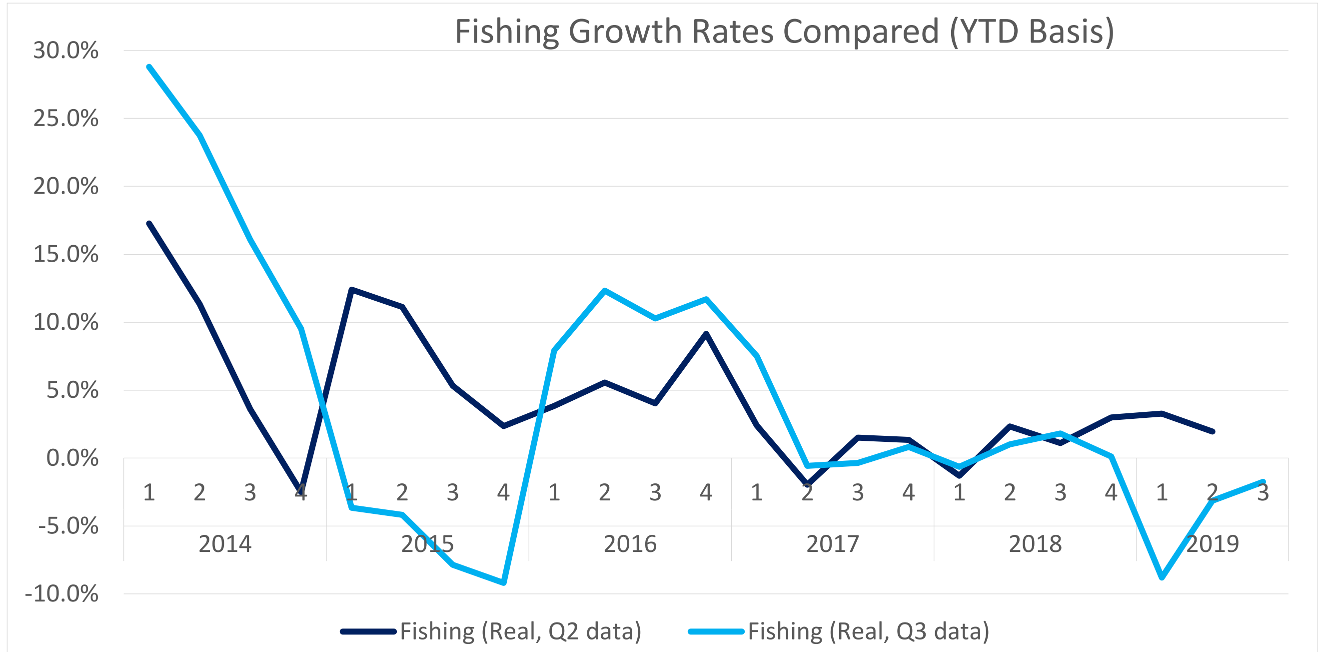
The national livestock herd has seen a sharp decline due to the duration of the drought and the demand for weaners from South African feedlots. Large numbers of cattle succumbed to the drought due to lack of water, food or both. At the same time farmers reduced herd sizes by slaughtering cattle and selling weaners into South Africa as the carrying capacity of farms declined due to poor rainfall and overgrazing of the land as a result. The decrease in the national herd means that production capacity is reduced and that farmers will be restocking and therefore selling less cattle and possibly buying stock where possible. The restocking process does add to growth in the industry despite reduced numbers of slaughter animals and weaners being marketed. This growth does come at the expense of cash flow though as a cow in a field does not generate cash but rather leads to further consumption of working capital during a time when many farmers are experiencing shortages of funds. Thus while economic growth may be registered, cash flow within farming communities may remain under pressure.

While it would be safe to assume that the reduced supply of cattle and small stock in the market due to depleted herds and herd rebuilding is likely to drive up prices for meat, the reduction in working cash flow and the need to service debts accumulated during the drought may actually keep prices from rising as rapidly as may be assumed. Such a scenario also suggests that we are likely to see a slow herd rebuilding process as farmers struggle to manage cash flow requirements and restocking. The net effect is that we do not expect exorbitant spikes in meat prices in general, and that price increases may be modest with a possibility of a reduction in prices.

The recent rains will be a welcomed boost to farming in general, and crop farming in particular. By the middle of February there was still much uncertainty with regards to rainfall for the season. Subsequent widespread rains have significantly boosted dam levels and will no doubt result in an improved crop yield in Namibia in 2020 if pests do not hamper production. Given the low base for crop production set in 2018 and 2019, strong growth is expected in 2020.

Fishing

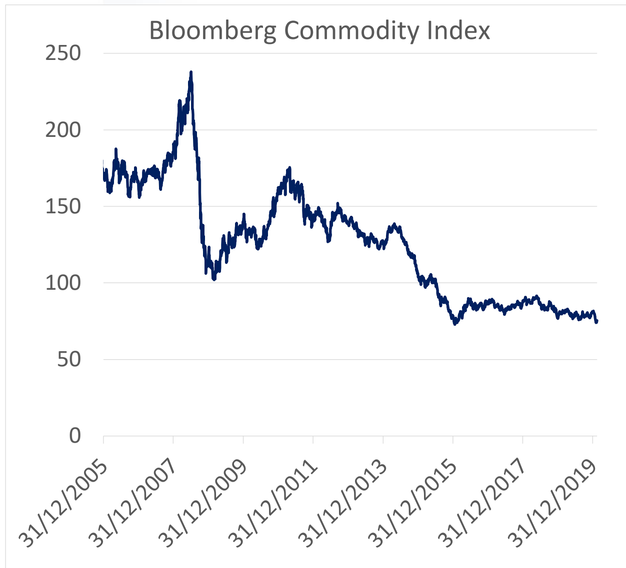
The fishing industry ended 2019 on a particularly low note with the “Fishrot” scandal breaking. The details of what is Namibia’s biggest corruption case to brought to justice have been widely disseminated by this time and thus will not be reproduced here again. The scandal highlighted the dangers of allowing a single individual, even if that individual is a minister, too much power in allocating resources as they see fit. It allows for the abuse of power, especially when the process is not transparent, and the allocation of fishing quotas have been murkier than the waters fished in.

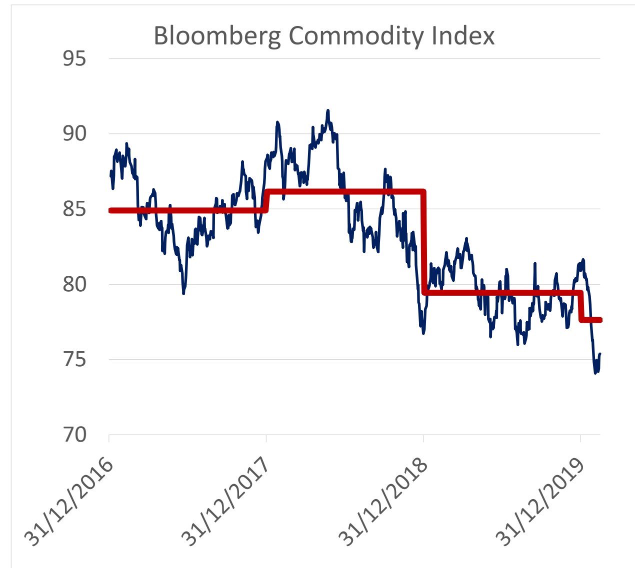


Source: NSA

The fishing industry has seen relatively slow growth through 2017 and 2018, before dropping to negative territory in 2019 as per the latest GDP figures (light blue line above). The allocation of fishing rights proved problematic during the end of 2018 and start of 2019, with the ministry of fisheries overwhelmed by applications for fishing rights. The imprisonment of the former minister of fisheries, Bernhardt Esau, has once again resulted in delays to the quota allocation process with the eventual allocations being awarded to prior rights holders up until the end of the 2019/20 financial year. This leads us to believe that the industry is likely to show no growth and produce roughly the same output as in 2019.

Mining and Commodity Prices

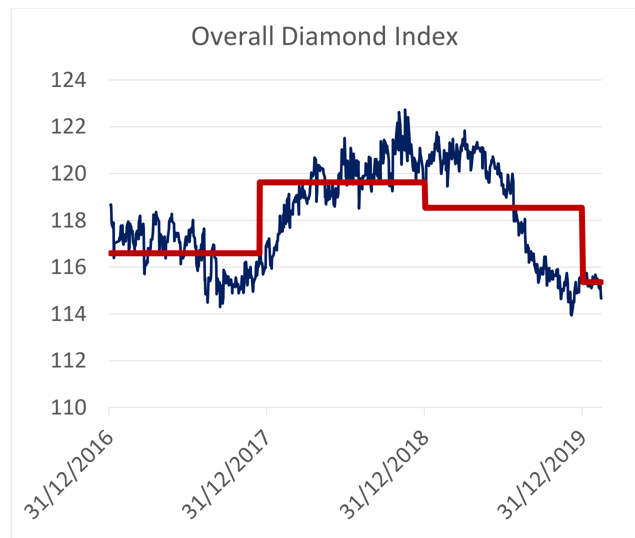




Source: Bloomberg

Commodity prices in general remain depressed versus historic levels. The commodity super-cycle is still very much in a trough and thus of little benefit to commodity reliant emerging market countries such as Namibia.

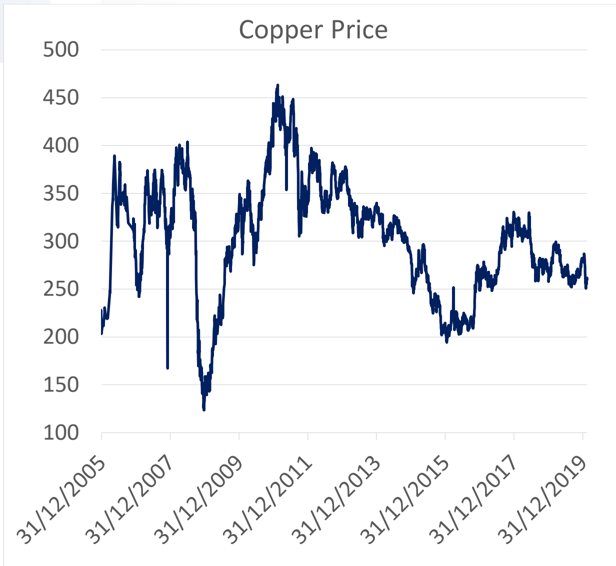
Overall commodities performed worse in 2019 than in 2018, indicating a further slide rather than a turn in the cycle. The near-term outlook for 2020 is for further pressure on commodity prices in general, with the coronavirus outbreak adding downward pressure on demand.

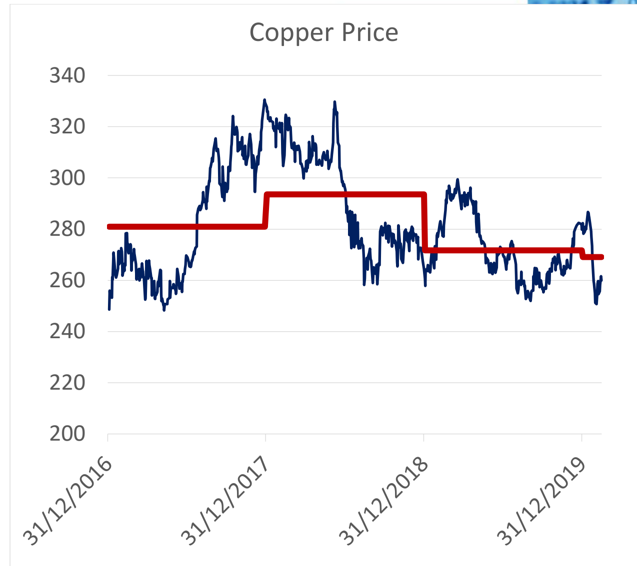


Source: Bloomberg

Diamond prices remained under pressure in 2019 when compared to the longer-term picture. Diamonds are particularly important in the Namibian context and the fact that prices have been under pressure for a prolonged period means that the economic contribution from this resource has underperformed its potential despite being a steady source of government revenues.

The small diamond price rally of 2018 lost momentum through 2019 with average prices dropping during the year. The average price that De Beers reported receiving for rough diamonds dropped substantially more than the above picture suggests, although that was due to lower grade diamond sales.

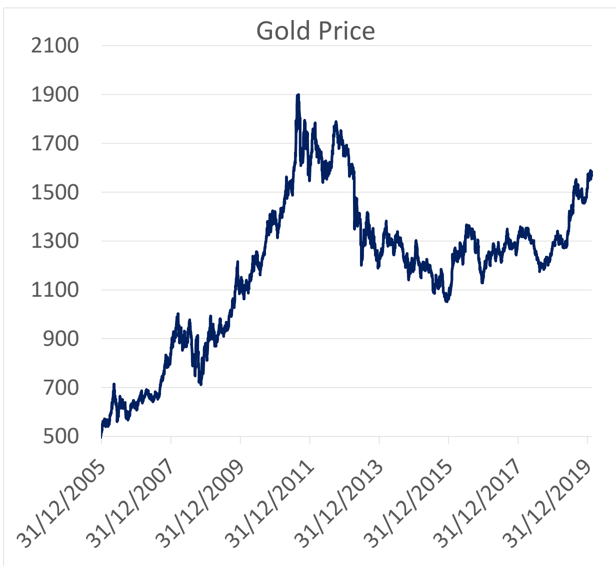


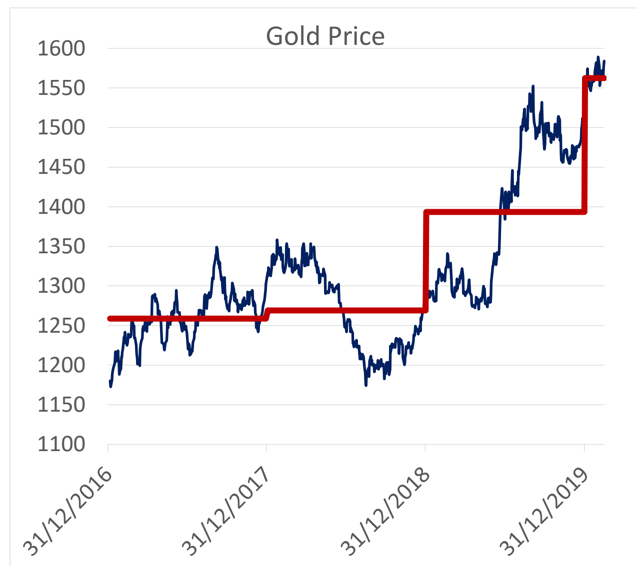


Source: Bloomberg

While copper prices fluctuated around average levels for the past decade and a half, they remained well below peak prices. Prices remained at levels where it proved difficult for the Tschudi mine to turn a consistent profit amidst less than ideal mining conditions due to water ingress. The mine was placed on care and maintenance at the end of February 2002.

Copper prices rallied in 2017 on the back of Chinese demand amidst some mines approaching end of life of mine. This rally was however short lived and reversed in 2018, although prices still averaged above those of 2017. Average prices in 2019 underperformed those of 2018 amid renewed fears of a Chinese slowdown. 2020 is likely to see copper prices remain under pressure due to the coronavirus driven drop in industrial production.

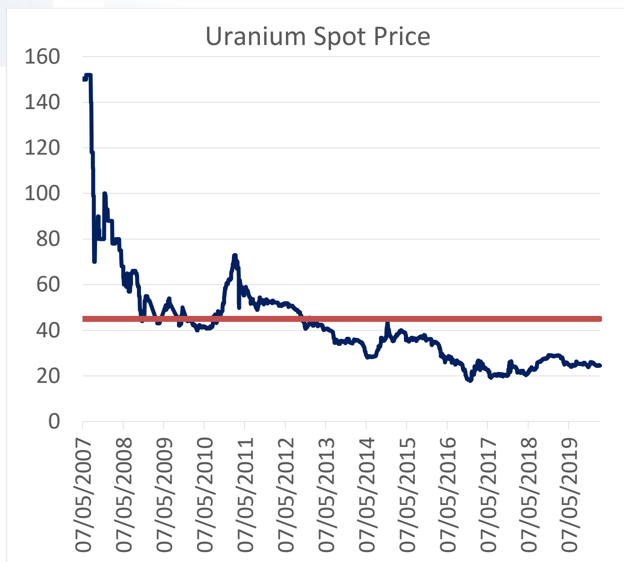


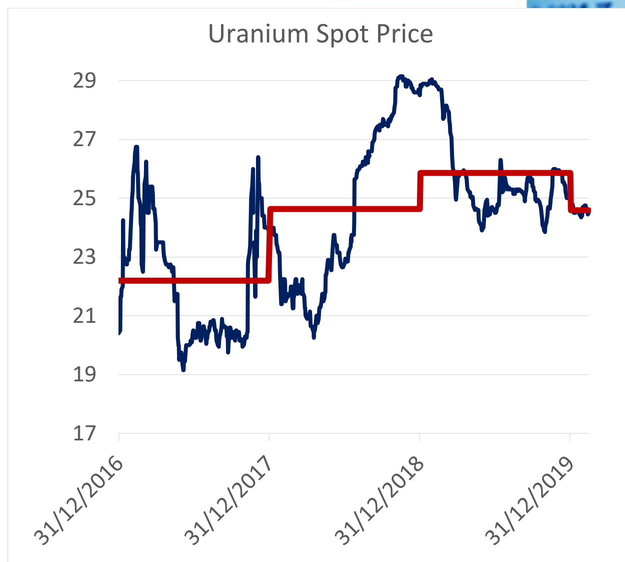


Source: Bloomberg

While gold prices remain some way from their peak, the last four years have seen a steady upward trend. With the B2Gold mine already performing above expectations this is a further boost to the economy.

Over the last three years the average gold price has increased by 38.5% at the same time that the B2Gold mine has ramped up production and consistently outperformed expectations. Gold production has outperformed the other recent large-scale mining ventures in copper and uranium.





Source: Bloomberg

The uranium spot price has dropped significantly from the highs in the mid-2000's. For the last eight years the price has trended below the U$45/lb that we see as the approximate breakeven for the Namibian mines (although this does differ between the mines). This has put pressure on both the two older mines and has led to a slow ramp up of the Husab mine.

Despite some uptick in the average spot price in 2018 and 2019 prices remained at unsustainable levels. Langer Heinrich was put on care and maintenance as a result while Rio Tinto, the previous owners of the Rössing mine, exited that venture and the country. Despite Namibia's large stock of uranium, current prices limit the economic contribution of this commodity.

Mining Outlook

We expect the mining sector, or at least the sector's contribution to real GDP, to rebound in 2020. Growth is forecasted at 6.4% for the year after the expected 9.5% contraction in 2019. This is driven by expectations for diamond production to rebound following maintenance on vessels during 2019. During the 2019 year NamDeb's Elizabeth Bay operations were sold to Lewcor, after NamDeb put the mine on sale in February 2019. Elizabeth Bay was one of four land-based operations in the stable, and could no longer be economically run by the mining giant. The land-based operations have become a smaller part of the overall output of the company for some time now, with NamDeb focussed on increasing its marine operations as evidenced by the commissioning of a new, purpose-built mining vessel during 2019. The new vessel is expected to commence operations in 2022, and is the basis for the growth in diamond mining in the 2022 and 2023 years in our forecast.

A further boost to the mining sector is expected to come from uranium mining in 2020, due in part to evidence of a poor year in 2019. We expect 2019 production to have been almost 22% lower than in 2018 based on October figures from the Ministry of Mines and Energy. Uranium prices remain well below where Namibian mines break even, let alone make a profit. The Langer Heinrich mine is already on care and maintenance due to depressed prices. The Rössing mine has thus far continued with operations, but Rio Tinto, the previous owner of the mine, sold the mine to China National Uranium Corporation due to profitability challenges. Rio Tinto has exited the Namibian market as a consequence. Rössing has thus far subsisted on longer term contracts at prices well above spot, and the new owners are likely to ensure that the mine continues to produce uranium for some time to come. Similarly, Husab is expected to continue to ramp up production after the dip in 2019, although the pace of this ramp-up is much slower than guidance previously led us to believe.

The base effects of the rebounds in diamond and uranium mining will mask decreased copper production after the Tschudi mine was put on care and maintenance in February this year. The mine has been under pressure of thin margins and consistent water ingress into the mining pits. The oxide ore which the mine targeted has been largely depleted with sulphide ores remaining but necessitate further investment to develop.

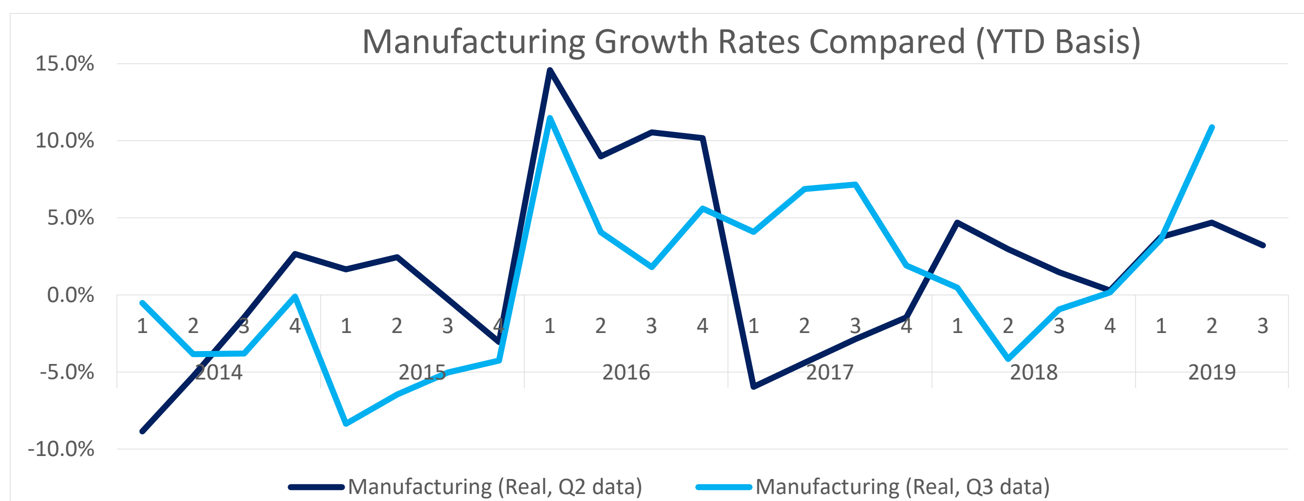
Zinc production for 2020 is not expected to grow as the Skorpion mine reaches the end of life-of-mine this year. Production of refined zinc will continue into 2021, where after it will cease as well. Thus, zinc production will be limited to the Rosh Pinah mine for much of 2021 and thereafter after starting to taper in 2020. As a result zinc is not expected to be a driver of future growth.

The outlook for gold is more promising. The B2Gold mine has been a resounding success with the added benefit of an increase in the gold price boosting profitability at that mine. We expect steady performance going forward but that the growth in output slows to a more consistent production level rather than the increases seen thus far. The Otjikoto mine thus provides a base for gold mining activity but does not add much in terms of growth in our forecasts. The Navachab mine has been experiencing difficulties with the main ore body proving possibly too expensive to reach without a recapitalisation. It is questionable whether or not the mine will produce any gold this year or in the near future, with the caveat that if the gold price does rise far enough a recapitalisation may become a reality. We are uncertain of how far the gold price is from allowing such an event from taking place. As Navachab did not produce meaningful amounts of gold in 2019 we do not see the lack of output as negative for growth. Any influence that the mine will potentially have is likely to be very small.

Secondary Industries

Manufacturing

Manufacturing as an industry has not posted any meaningful growth since 2010, bar the 10.2% growth seen in 2016 according to the revised GDP data, with real growth over the period of only around 6% in total (cumulative). The industry as a whole makes up only 10% of the Namibian economy at present, and has been steadily sliding as a component of GDP. The reason for this is comes down to competitiveness. Namibia is a small and relatively isolated market with high electricity prices, low water supply, and a skills shortage, which makes it very difficult to compete on manufacturing with countries that have a better mix of these factors.

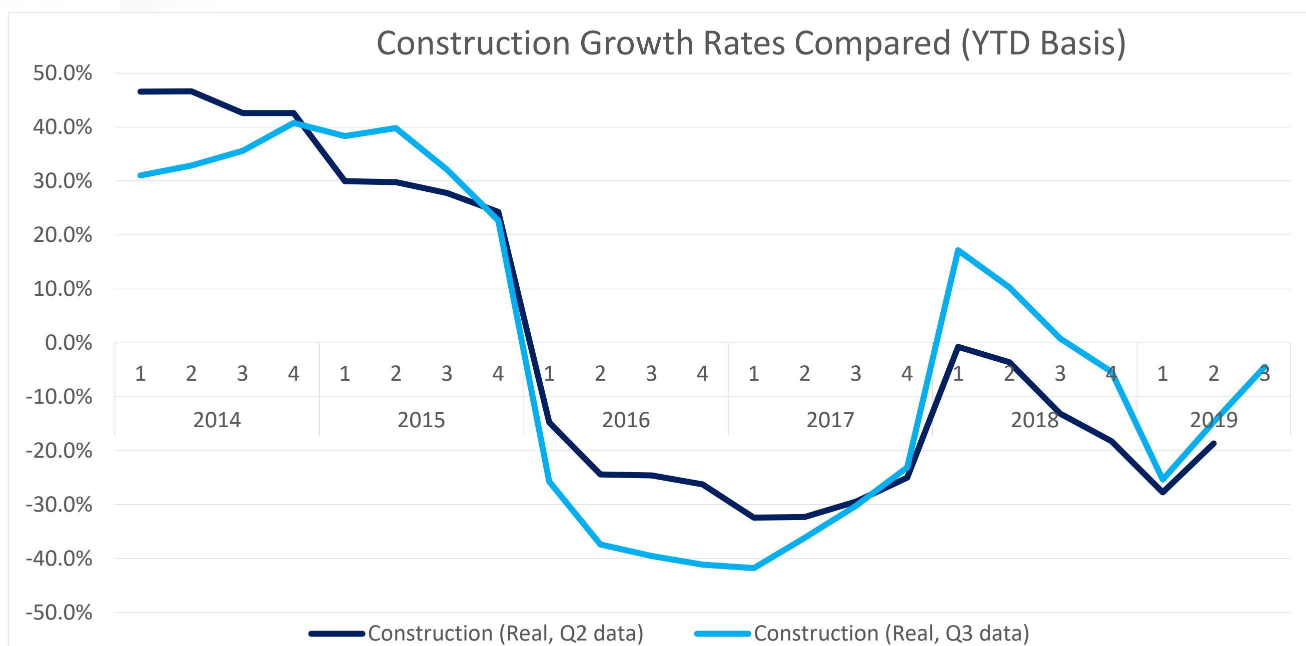


Source: NSA

We expect growth of around 0.9% in manufacturing in 2019, followed by a contraction of around 1% in 2020. The outlook for the industry remains mundane at best. We expect some of the larger line-items such as basic non-ferrous metals production to slow as the Skorpion zinc mine reaches the end of its life of mine, and processing of stockpiles tapers off through 2021. Beverage production should remain relatively stable but is not expected to post rapid growth in 2020 as consumers remain under pressure. Diamond processing should rebound along with diamond production after a contraction in 2019. Meat processing, boosted in 2019 by drought conditions and the conversion of animals into cash flow, is expected to slow somewhat due to the herd rebuilding we expect to take place. Various smaller line-items in the manufacturing figures are expected to remain under pressure due to weak consumer demand. Some growth is likely due to base effects, but this will not drive meaningful growth in the sector.

Various measures aimed at encouraging growth in manufacturing (or industrialisation) have been in place in Namibia, but with limited success. The Export Processing Zone (EPZ), being done away with by the finance ministry in 2020, has largely been ineffective, benefitting a few manufacturers but not bringing about the anticipated job creation or up- and downstream industries. The factors mentioned in the first paragraph remain a barrier to widespread industrialisation in Namibia despite substantial tax benefits provided by EPZ status. The EPZ regime is set to be replaced by Special Economic Zones (SEZ), but the challenges remain, and while we are yet to see exactly how the SEZ regime will operate, it is unlikely to succeed if the underlying issues with competitiveness are not addressed.

Construction



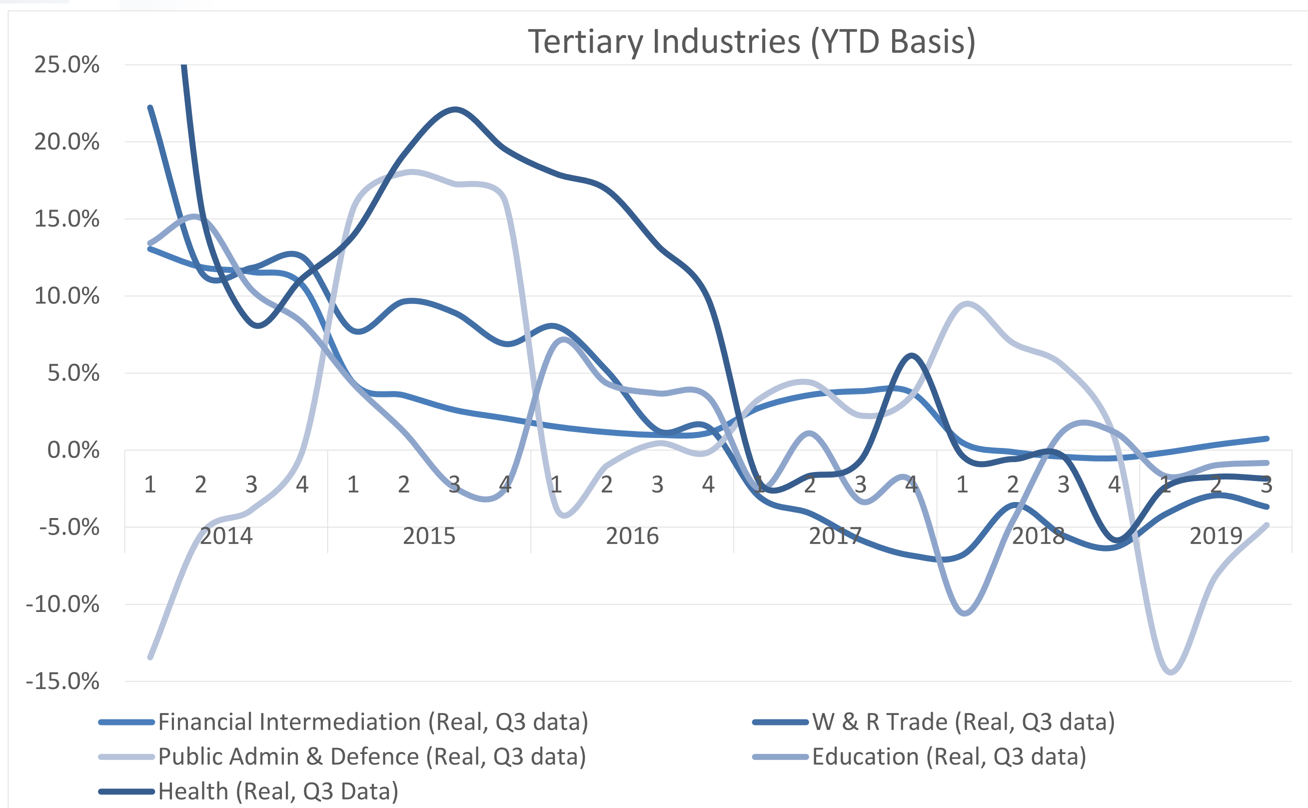
Source: NSA

The construction sector was the main beneficiary of the rapid government debt and private sector credit extension that led to the overheating in the economy. It was also the sector that took the brunt of the subsequent downturn, contracting by a cumulative 57.1% from 2015 to 2018. We expect a further contraction in construction to be recorded in 2019, with very modest growth in 2020, mainly due to base effects in the latter year.

There remains much scope for an increase in construction activity in Namibia, with a growing infrastructure deficit and a lack of urban housing. However, government's development budget expenditure has been cut over the last four years to make way for recurrent expenditure in the budget, limiting activity in the sector. And a lack of business confidence, as well as business closures, and the resultant unemployment, have damped the private sector's ability to and willingness to invest in construction activities.

The AfDB was expected to be a source of funding for various infrastructure projects in 2019 that had been delayed in prior years due to an inability to maintain the growth in government expenditure as revenue collection disappointed. However, the funds from the AfDB were delayed in the 2019/20 financial year due to governance issues, necessitating an increase in government debt issuance and reserve drawdowns in order to fund the projects greenlighted by the AfDB. Through 2019 there were delays in payment on some of these projects and subsequently delays to progress on the projects. The AfDB funds may be released in 2020 which will be somewhat of a boost to the sector as these funds are ringfenced and cannot be spent on anything else.

Tertiary Industries



Source: NSA

As the above figure illustrates, tertiary industries converged in poor performance towards the end of 2018 and through 2019, after years of mixed performance across the different sub-sectors. The largest of the sub-sectors that comprise tertiary industries is public administration and defence. Public administration and defence growth is expected to have slowed significantly in 2019, from growth of 0.8% in 2018 to an 'nowcast' contraction of 4.2% in 2019. In real terms government spending has been contracting for a number of years, but administrative expenditure as a proportion of overall expenditure has grown.

The Namibian government budget has, over the last five years or so, become less efficient in delivering the large-scale resources that the economy needs for effective economic progress. Salaries and wages have been increasing at above inflationary levels with little seeming gain in productivity of delivering social goods as a whole. The infrastructure portion of the budget has been eroded by the growth in the consumptive components, while revenue collection has stagnated. The result of the inefficient application of government funds, in combination with an unfriendly policy environment, is that government revenue is unlikely to recover to above inflationary growth rates any time soon or for any meaningful length of time unless structural changes are made to the expenditure profile and policy environment. This outlook forms the basis for our forecasts for a further contraction in public administration and defence in 2020 and very muted growth thereafter.

Wholesale, retail trade and repairs (which we may refer to just as wholesale and retail trade here) forms the second largest sub-sector within tertiary industries. After two large contractions of 6.8% and 6.3% in 2017 and 2018 respectively, we 'nowcast' a further contraction of 3.1% in wholesale and retail trade in 2019. The year-to-date contraction recoded in the sector as at the end of Q3 2019 was 3.7%. The extent of the slide in wholesale and retail trade is evident in the vehicle sales data we report on a monthly basis, amongst a multitude of further accounts from business owners in the capital. The increase in unemployment from 28.1% in 2014 to 33.4% in 2018 provides much of the explanation for the contraction in wholesale and retail trade. The sector undoubtedly benefitted, amongst other things, from the high growth in credit extension during the first half of the decade, and it now bears the brunt of the slowdown. Wholesale and retail trade reflects the health of the consumer in the country, and right now it clearly reflects the increase in unemployment and general lack of consumer confidence that accompanies an economic environment where employment opportunities are decreasing rather than increasing.

Tourism has stood out as one of the few sectors in the economy that has shown growth over the last four years, at least when analysing the tourist arrivals data which is imperfect. This growth has not been reflected in the hotels and restaurants component of the national accounts which contracted in 2017 followed by very mundane growth in 2018 and 2019. The drop in Namibian tourists or Namibians making use of tourist facilities such as lodges and hotels has dropped off significantly, as previously pointed out due to the health of the Namibian consumer, and is likely the underlying cause of the poor GDP contribution.

Namibia does remain a very desirable tourist destination and continues to feature regularly in international publications, and as such holds much potential for growth. Whether or not 2020 will see much of that unlocked is becoming less and less clear. The coronavirus epidemic will result in reduced Chinese visitors landing in Namibia during the year, with reports of reduced business activity already surfacing. Anecdotally we are hearing of more and more lodges and hotels that report an increase in coronavirus related cancellations, not only from Chinese nationals, but ever more European tourists. Our GDP forecast for the hotels and restaurants sector does not account for the possible impact that virus related cancellations might have, but there is an increasing probability that the coronavirus epidemic might have a large impact on the tourism sector as it is expected to peak during Namibia’s high season. The risks to the sector are thus very much skewed to the downside at this point.

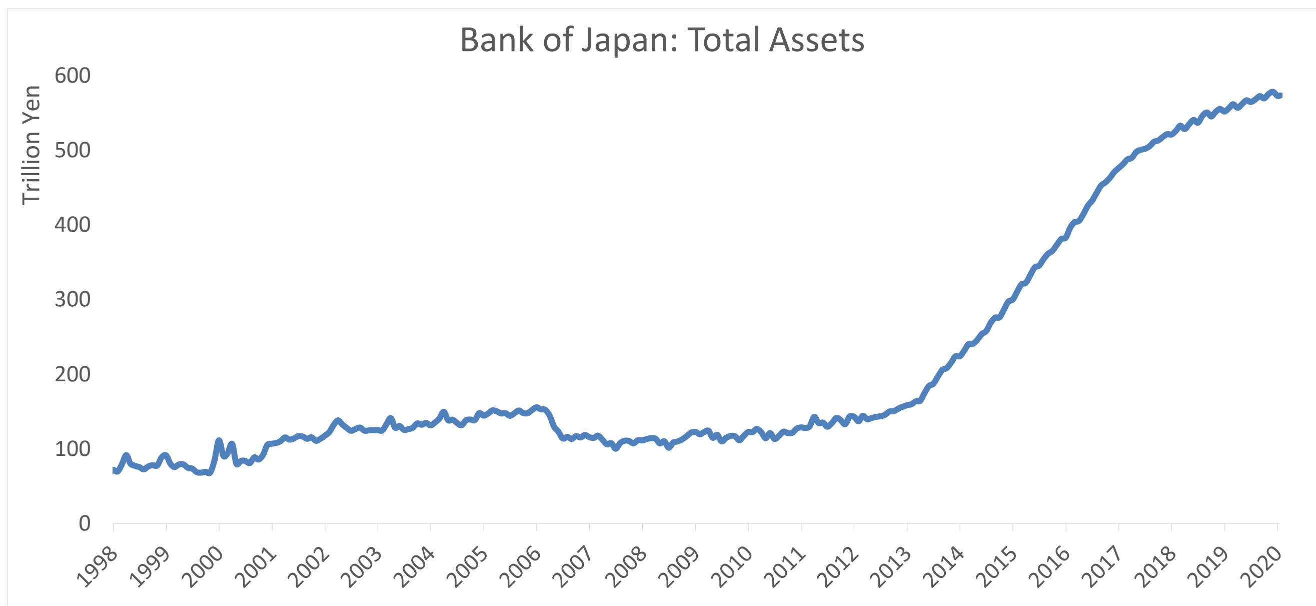
The various other tertiary industries that we have not touched on here share many of the same drivers that we have mentioned thus far. Weak consumer demand and confidence, little room for government spending and external headwinds all pose challenges to the various different sectors. Overall we ‘nowcast’ a contraction of 0.6% in tertiary industries for 2019, and have pencilled in no growth for 2020 based on the aforementioned factors and base performance.

Interest rates

Global monetary policy remains accommodative as global growth remains stubbornly sluggish while inflation remains pursuantly low. Moreover, monetary (quantitative) easing was prevalent in several of the large economies in 2019 and the lagged effect thereof is expected to contribute to underpin economic growth in 2020. However, with more than US$11 trillion of the world's bonds yielding negative interest rates, roughly one fifth, it is unclear whether monetary policy will have much of a stimulatory effect without complementary fiscal policy. Central banks will, as a result, have to pay close attention to the unwelcome side-effects of low interest rate policies on stock markets and other asset prices this year, which seem to have been the main beneficiaries of monetary easing.

Japan

The Bank of Japan ("BOJ") was the first central bank to take interest rates to zero. When zero interest rates did not provide the sought after stimulus, the BOJ introduced quantitate easing (QE) early in 2001. The central bank flooded commercial banks with excess liquidity to promote private lending which was achieved by large scale asset purchases which included treasuries and government bonds.

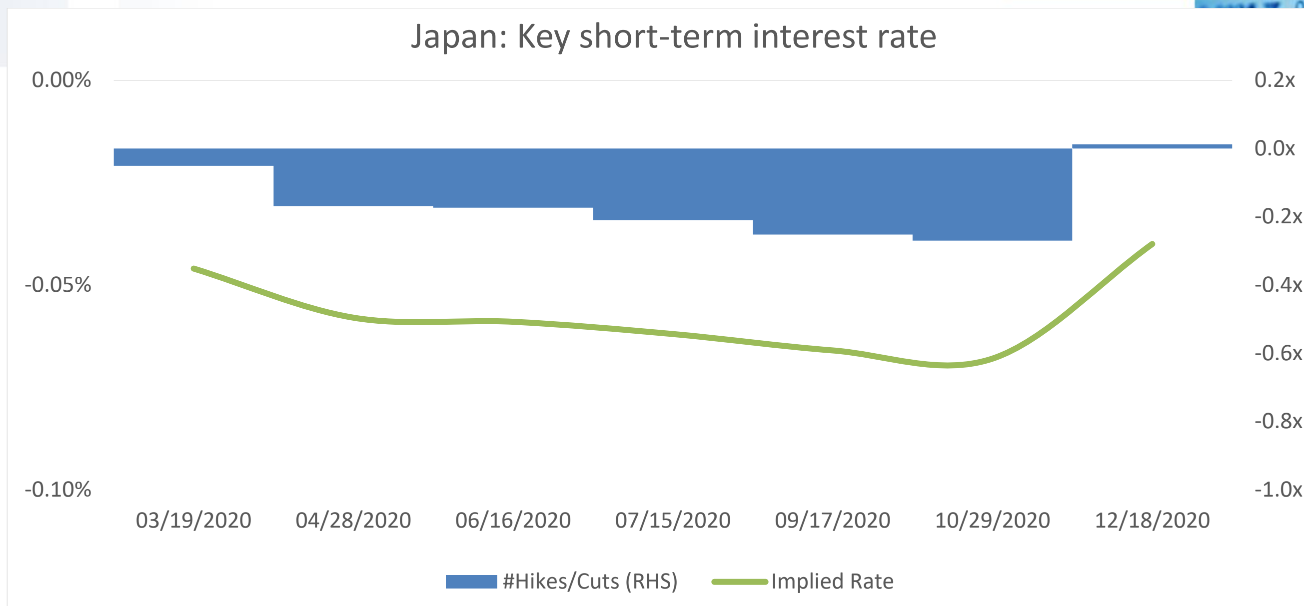


Source: Bloomberg

Although economic growth was better between 2002 to 2007, the global financial crisis in 2008 was a stumbling block which led the BOJ to up the ante again. Despite taking longer to react than its US and EU counterparts, the BOJ announced quantitative and qualitative monetary easing (QQE) in 2013, aggressively expanding its balance sheet. This added asset-backed securities and equities to the asset purchases and extended the terms of its commercial paper-purchasing.

These asset purchases had a positive effect on the real economy, but the effects were short-lived. Again, the bank added a new tool to their arsenal in 2016, namely Yield Curve Control (YCC) which targets both short-term and long-term policy interest rates, to resolve the issues created by QQE. Today the total BOJ balance sheet has grown to over ¥573 trillion. However, despite all these interventions (and acronyms), there is no real evidence of strong real economic growth or inflation. In fact, the more stimulus the BOJ provided, the less the economy responded.

Despite two decades of unconventional monetary policy, the BOJ still struggles with low growth and low inflation. With the rest of the world, particularly the EU, seeming to be following the BOJs example, it remains to be seen if the rest of the world will be able to escape the continuous cycle of low growth, low inflation and low rates.



Source: Bloomberg, IJG

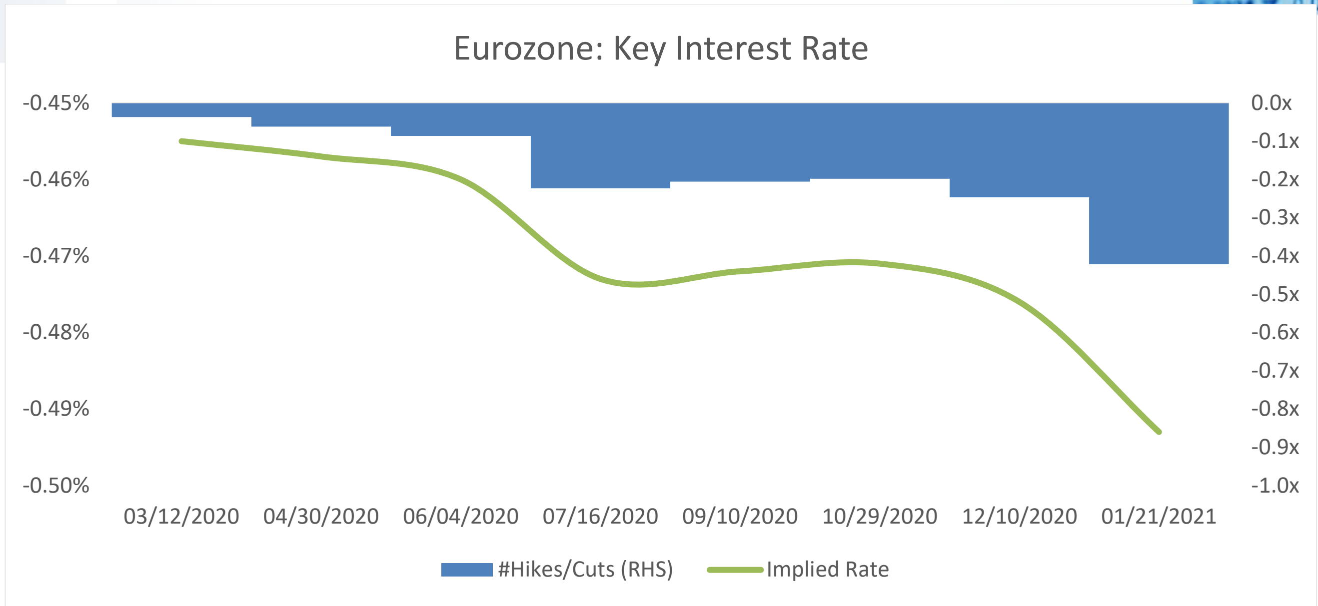
In its January meeting, the BOJ decided to keep its monetary policy unchanged, holding rates at -10bps while maintaining its 10yr bond yield target at 0.00%. The central bank maintained its forward guidance on interest rates, stating "they will remain at current or lower levels for as long as needed to guard against risk momentum for hitting price goal may be lost". Earlier this year market expectations agreed with the forward guidance, seeing no change in the policy rate for 2020. However with the BOJ set to follow the Fed's response to the coronavirus epidemic by promising to inject liquidity into markets we may see this change still. The BOJ has indicated that it is moving into crisis mode which signals a willingness to support asset prices in an effort to neutralise some of the effects of the virus outbreak.

European Union

Given the structural changes in the European economy over the last two decades, namely slowing productivity, an ageing population and perpetually low interest rates, the European Central Bank ("ECB") has decided to review its monetary policy strategy. The review will entail an examination of its inflation target, but also wider themes such as inequality and climate change. This is largely due to the fact that expansionary monetary policy by conventional instruments has become increasingly difficult in the current environment.

It is of no surprise that the references to the eurozone's "Japanification" has become more prevalent in financial media as the similarities between the two economies become more apparent. Many analysts believe that Europe is destined to follow in Japan's footsteps largely because the challenges of low productivity growth and demographic changes. These are issues, for which most agree, solutions lie outside the realm of monetary policy.

The first meeting of 2020 saw interest rates left unchanged and the ECB maintain its commitment to purchasing €20 billion a month in bonds. The ECB's deposit rate remained at -0.5%, while its main refinancing operations rate was held at 0%. The ECB repeated that it expects rates to remain at present or lower levels until there are solid signs that low inflation is on track to converge with the bank's target of near, but below, 2%. The ECB also reiterated that it expects asset purchases to run for as long as needed.

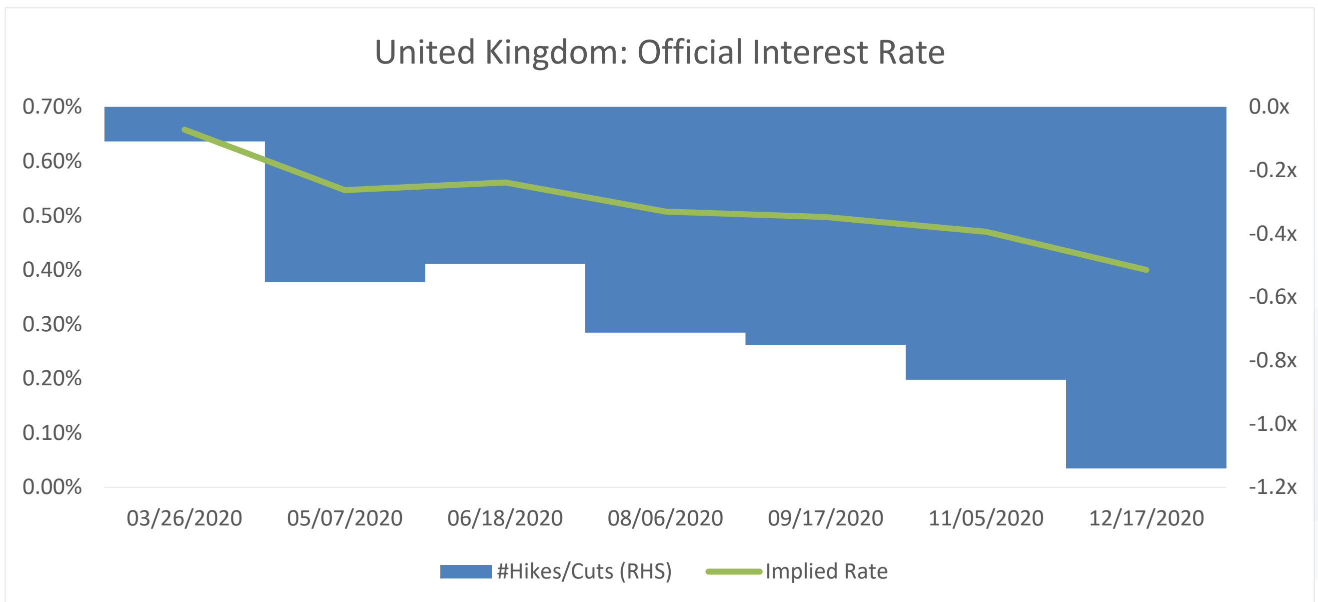


Source: Bloomberg, IJG

The ECB's monetary policy review is expected to take roughly a year and marks a "honeymoon period" where pressure will be low to make changes to policy rates. This is evident in the market expectations which do not see much change in monetary policy rates for the remainder of 2020. Given a more upbeat outlook on the European economies, this might be followed by the ECB tapering its quantitative easing programme and the start of rate normalisation in 2021, although this is not reflected in market pricing.

UK

In the January meeting the Bank of England (BOE) decided to hold interest rates at 0.75% by a 7-2 vote, the level it has been at since late 2018. In 2019, holding rates steady was described as a 'wait-and-see' approach to Brexit, but with the UK now having left the EU and uncertainty over a post-Brexit trade deal between the UK and the EU continuing to weigh on demand, a rate cut might very well be on the cards in the near term.



Source: Bloomberg, IJG

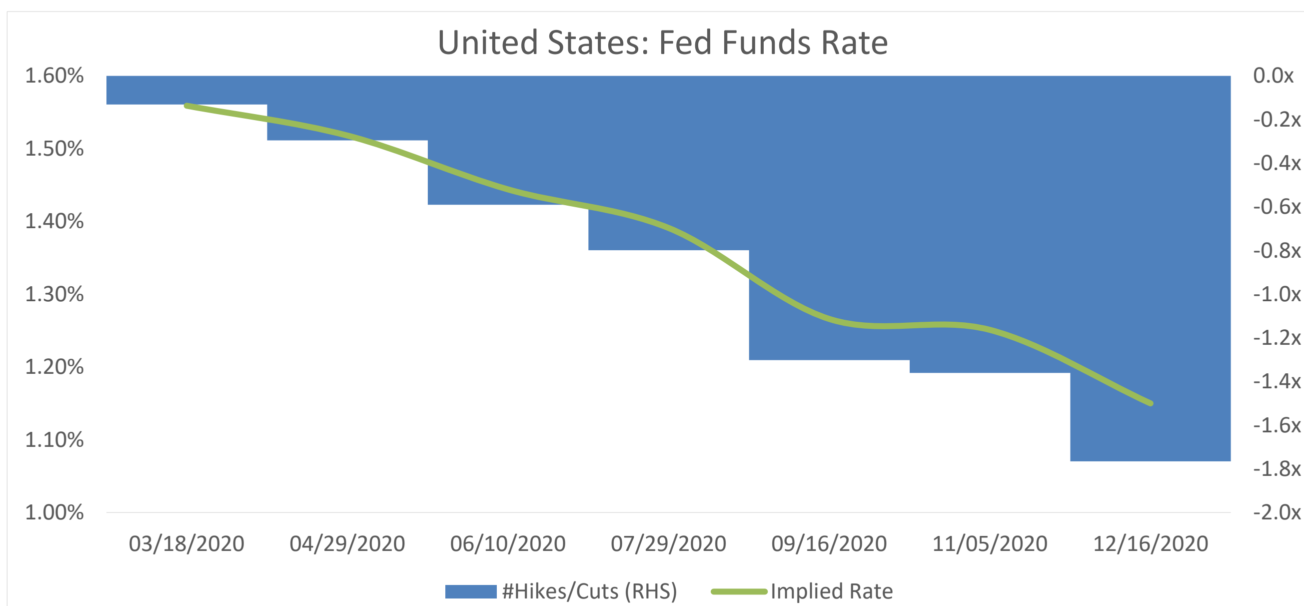
Recent UK economic data has come in on the weaker side, which has fuelled market expectations for future rate cuts. However, central bank governor Mark Carney said "the most recent signs are that global growth has stabilised… but the Monetary Policy Committee was poised to cut interest rates if necessary." The MPC estimates that the UK economy would be able to grow at an average rate of 1.1% over the next three years, well below the 1.6% growth experienced since the start of the decade.

The BOE said Brexit uncertainty had "weighed on investment" over the past few years as companies diverted resources towards preparing for the UK's departure from the EU that could otherwise be invested elsewhere. Now that the Brexit deadline has officially come to pass it remains to be seen what the impact on growth in the UK will be. This in an increasingly uncertain global environment after the outbreak of the coronavirus.

US

In the second half of 2019, the United States Federal Reserve went into its first rate-cutting cycle since 2008. The fed lowered interest rates three times by a cumulative 75 basis points. Additionally, the fed initiated a six month long "Not-QE" programme which saw them purchasing US$60 billion of US treasuries each month and pumping billions into the repo market. This has had the effect of lowering treasury yields and inflating the size of the Fed's balance sheet once again.

At the January Federal Open Market Committee ("FOMC") meeting the benchmark funds rate was left unchanged at the 1.5% to 1.75% range in a unanimous decision. The post-meeting statement also hinted towards a stronger commitment to the inflation target of 2.0% and pointed out that the US economy is in a positive position. Chairman Jerome Powell and other Fed officials had until three weeks ago indicated that they see current rates as low enough to support economic growth and employment. This of course changed after a the Fed cut rates by 50 basis points on the 3rd of March amidst concern surrounding the coronavirus outbreak.



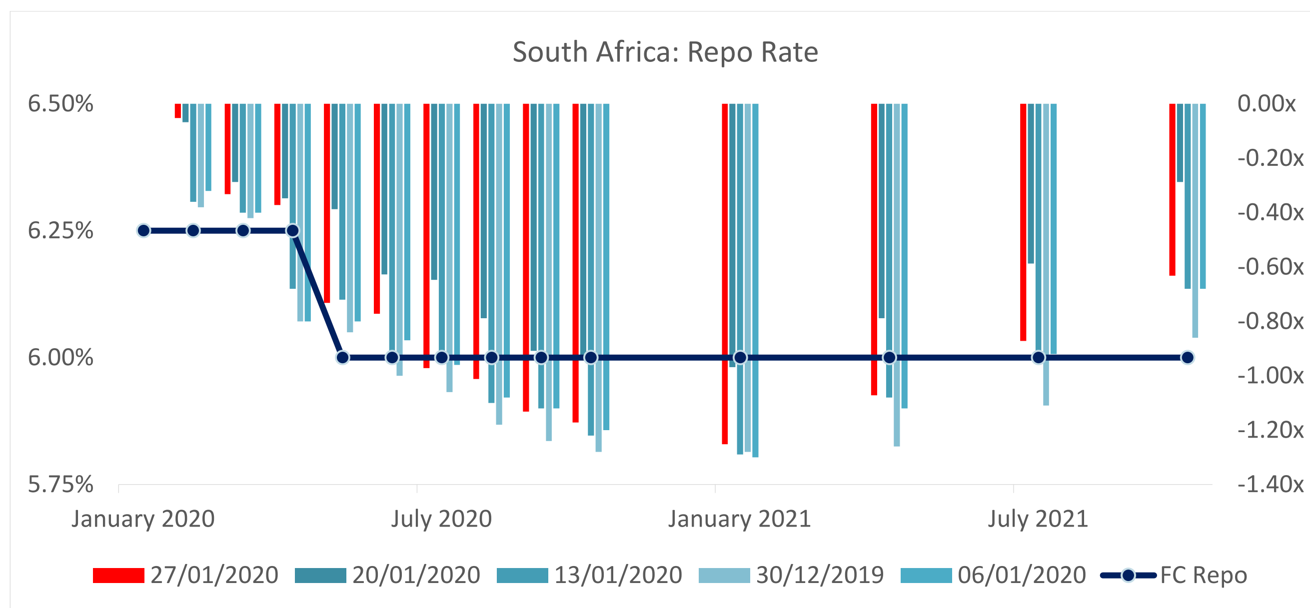
Source: Bloomberg, IJG

The March rate cut was made at an emergency inter-meeting decision after G7 countries held discussions on the threat the coronavirus poses to the global economy and how best to mitigate negative consequences of the virus' spread. The Fed move comes as quite a strong response to asset price volatility generated by coronavirus concerns and the seeming indecisiveness of G7 finance ministers and central banks to respond proactively. In addition to the Fed attempting to spur other G7 policymakers to action, a sharp drop in US bond yields in the week prior to the cut put pressure on the Fed to drop rates.

South Africa

Following the lead of the develop world, emerging markets are also in easing mode. While countries like India, China, Poland and Turkey have negative real interest rates, South Africa still has some room for monetary easing before reaching negative territory.

The South African Reserve Bank ("SARB") started off 2019 with an unexpected rate cut, however, with low inflation, almost no economic growth and drastically high levels of unemployment, it should not have been seen as unexpected. The reason for the 25-basis point cut was chalked up to the change in inflation expectations, which were revised lower, from 5.1% to 4.7%. This was accompanied by a revision to the growth outlook. For 2019 the SARB now sees growth of 0.4% from 0.5%, and 1.2% in 2020 compared to the 1.4% it forecast in November 2019. Although stage six load shedding is not expected to materially affect the 2019 numbers, the growth outlook for the year ahead will be clouded by electricity supply constraints.



Source: Bloomberg, IJG

As a result, more accommodative monetary policy will likely be on the cards for the SARB in 2020. The market is currently pricing in one more 25 basis point cut to the repo rate in the first half of 2020, taking it down to 6.0%. The unexpected Fed rate cut, and expectations for further developed market easing, does provide the SARB with additional room to cut interest rates. If core inflation remains low the probability of more that one cut in 2020 increases in our view.

Namibia

Seeing as Namibia has the same combination of low inflation and low growth, the Bank of Namibia should be keen to follow the example set by the SARB to lower rates at future meetings. Inflation printed just 2.1% y/y in January, largely due to a contraction in the rental cost component of inflation (which is relatively large). Although food inflation has the potential to edge inflation higher, generally low consumer demand and a struggling property market should see inflation contained well within the 3 – 6% target band for at least the short-term, if not longer. Our forecast for inflation points to an average rate of around 2.4% for 2020, closing the year at 2.8%. This leaves much scope for BoN to ease monetary policy, but the central bank will be limited to what the SARB policy in order to maintain the currency peg. During such uncertain times as these funds tend to flow toward safety and within the CMA South Africa remains that safety net as it is a much larger stronger economy and asset liquidity is incomparable.

It is our view that the role of the Bank of Namibia is now more important than ever. Namibia has for the most part during this low growth period, bar drought, been spared from external shocks. It is increasingly likely that the adverse impacts of global headwinds will have a significant impact on the domestic economy. In order to support the economy and the relatively weak fiscal position that the country is in at present, monetary policy may need to become more proactive. It is our view that rate cuts (especially if only around 50bps to 100bps) are unlikely to spur much demand or investment related credit extension given the policy environment that the country is in. We however do think that the risks of capital leaving to safer jurisdictions with similar rates (i.e. South Africa) is a likelihood if the global economy does slip into a recessionary environment. While we are not saying that this is a given, far from it, we are just cautious of how rapidly the environment may change and what a rapid change may require from the BoN, whatever that intervention may be. Of course, intervention will likely be needed if the economy was to recover rapidly too. A sudden increase in investment activities and consumer demand will put much pressure on the reserve position within quite a short amount of time. It is our view that as times become more uncertain the BoN will need to be more proactive than has been needed during the global upswing.

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