High Economic Intelligence

Economic Outlook 2023

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Overview

The outlook for the global economy has been revised downwards as global growth is expected to fall in 2022 and 2023 in relation to 2021. The increase in interest rates by the central bank to contain rising inflation and Russia- Ukraine conflict weighed on economic activity in 2022. These factors will continue to shape global economic developments, despite pockets positive signals in the last quarter of 2022. There was an easing of inflationary pressures, a modest uptick in consumer sentiment, and stabilization of commodity prices. However, the recent reopening of China's economy is anticipated to pave the way for a faster-than-expected recovery for 2023 and beyond.

Risks to the global economy remain two-sided, characterized by both easily modelled upsides and downsides. On the upside, a stronger boost from pent-up demand in numerous economies or a faster fall in inflation is plausible. On the downside, weaker external demand compounded by high inflation, currency depreciation, looming energy crisis, tighter financing conditions, and other domestic headwinds could hold back economic recovery.

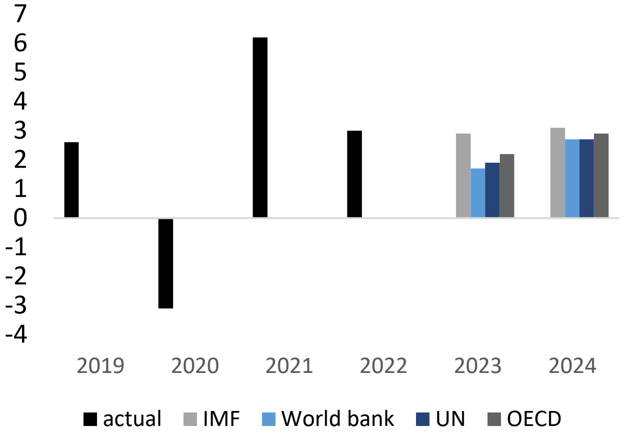
Advanced Economies

Economic conditions deteriorated substantially in the second half of 2022 as high inflation eroded household purchasing power and dented confidence, while rapid monetary policy tightening weighed on demand. Housing prices and property-related activity have remained subdued. Gas supply to the Euro area was disrupted by Russia's conflict with Ukraine, pushing up energy prices and inflation, hampering industrial production, and stoking uncertainty.

Growth in advanced economies is projected to slow sharply in 2023 as central banks continue to tighten monetary policy to contain inflationary pressures, labor markets will soften, and energy market disruptions in Europe could persist. High inflation requiring an even more aggressive monetary policy response represents a major downside risk, as do prolonged energy supply disruptions in Europe.

Looking forward, the global outlook is slightly more positive than the consensus because of the divergent economic cycles that are coming into play. The expectation is that the US to narrowly avoid a recession and consumer demand to pick up propelled by China's commitment to reopen their economy. We anticipate flat economic growth in the EURO area as inflation risks remain elevated and raising interest rates. Furthermore, we expect slightly softer commodity prices compared to 2022, as raw commodity demand is lowered by supply chain bottlenecks ease. Global trade is expected to slightly rise on the trend of the 2022 second half, aided by lower shipping costs and increased production output by Chinese manufacturers. (figure 1)

Figure 1: World Gross Domestic Product (GDP) (2019 – 2024*)

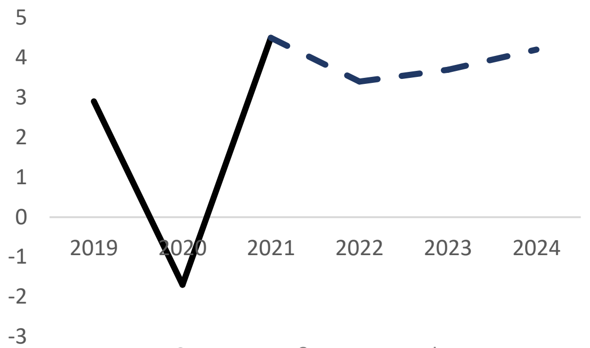


Source: IMF, World Bank, UN, OCED, & HEI Research

Sub-Saharan Africa

Africa's economic recovery has been disrupted in 2022 by a confluence of shocks — including rapidly rising rates of inflation, higher borrowing costs, and softer demand in major export markets. Price levels have risen significantly driven mainly by supply chain disruptions and the fallout from the conflict in Ukraine, which sharply increased the prices of essential food items and energy. Weaker national currencies against the dollar amplified inflationary pressures. (figure 2)

Figure 2: Sub-Saharan Gross Domestic Product (GDP) (2019 – 2024*)

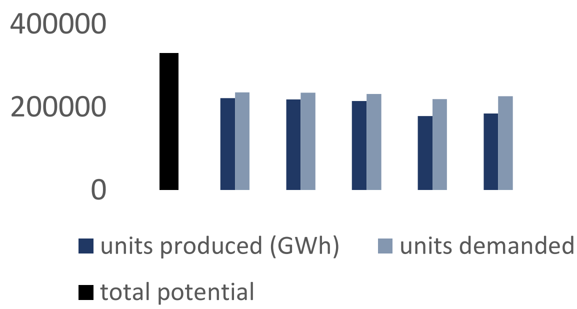


Source: IMF & HEI Research

GDP growth in Southern Africa looks to remain stable going forward, but with a high-risk on the upside as countries like Zambia and South Africa remain vulnerable to energy shortages. Botswana has suffered from elevated inflation in 2022 and we expect it to moderately decrease but to remain higher than the Reserve Bank of Botswana's inflation target range. We expect diamond and other mining production to continue on the upward trajectory. Angolan economy has shown resilience and continues to comfortably surf on top of global oil prices, thus we expect continued growth for the northern neighbors. The South African economy is to remain under pressure with low growth prospects as higher interest rates, power supply issues, and weak demand weigh on domestic and export-oriented business activity.

South Africa's ESKOM energy continues to burden the growth prospects of South Africa as load shedding and blackouts increases the vulnerability in the second largest economy in the region. (figure 3)

Figure 3: Eskom, production levels (2018 – 2022)



Source: ESKOM annual reports & HEI Research

The vulnerabilities of the energy crisis will significantly impact consumer demand and weigh heavily on producers. There is market response to invest in alternative energy but we anticipate that to come on stream in the medium term but the risk in the short term remain elevated.

Similar conditions will hamper growth in Nigeria as economic growth slipped to a six-quarter low in 2022. The slowdown was mostly due to poor performance in the oil sector.

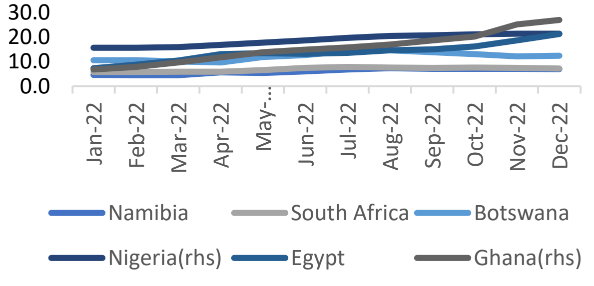
We expect low growth for Nigeria due to disruptions related to the February 2023 election, the continued decline in oil production, and with inflation rate persistently trending upwards.

Kenya is recovering from the uncertainties of global commodity price shocks, the long regional drought, and uncertainty in the run-up to the 2022 general elections. We anticipate Kenya's economic growth to slow amid domestic headwinds such as continued drought conditions and fiscal consolidation.

Ghana is also expected to be one of the fastest growing economies on the continent for 2023 and beyond, growth is expected to be driven by a number of factors including the Government's COVID-19 alleviation and revitalisation of Enterprises support programme and its 2023 budget which aims to increase domestic revenue and reduce the country's dependence on borrowing.

Due to inflation still being above various central bank's inflation targets, we expect an increase in interest rates, especially in the first half of the year. (figure 4)

Figure 4: Inflation rate of various countries in Sub-Saharan (January 2022- December 2022)



Source: Statistics agencies of respective countries & HEI Research

Namibian overview

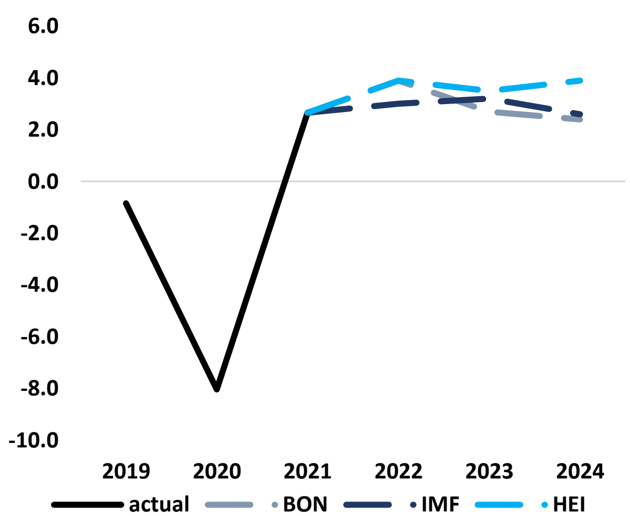
Namibia's economy saw strong growth over the course of 2022 with the real GDP averaging 5.6% during the first three quarters of the year. The economy experienced growth for three consecutive quarters of 2022. The main drivers of growth during the three quarters of 2022 were the financial service activities, health, and the mining and quarrying sectors contributing 29.1%, 26.4%, and 21.9% on average respectively. This implies that the tertiary sector remains the main driver of growth for the Namibian economy. Improved economic activities in the health sector were attributed to an increased number of healthcare workers and their related compensations on the back of expanded healthcare services after the outbreak of the Covid-19 pandemic, increased medical internship programs, and implementation of special healthcare programs.

The positive performance of the financial service sector resulted in an increase in total deposits in the economy. Both short- and long-term insurance policies improved relatively due to increased public awareness following the pandemic. The mining and quarrying sector's growth was driven by increased diamond production.

The construction, public administration, and fishing and fish processing on board sectors recorded no growth during the three quarters of 2022. We anticipate continued growth for the economy for the last quarter of 2022 and hence a boost in economic activities for 2022 and an improvement in comparison to 2021. There is however a need to look at inclusive growth which can be underpinned by the primary sector and especially in the agri-sector given the rainfalls we got.

The projected growth trajectory could be supported by the continuous positive performance of the financial services, health, and mining sectors. (Figure 5)

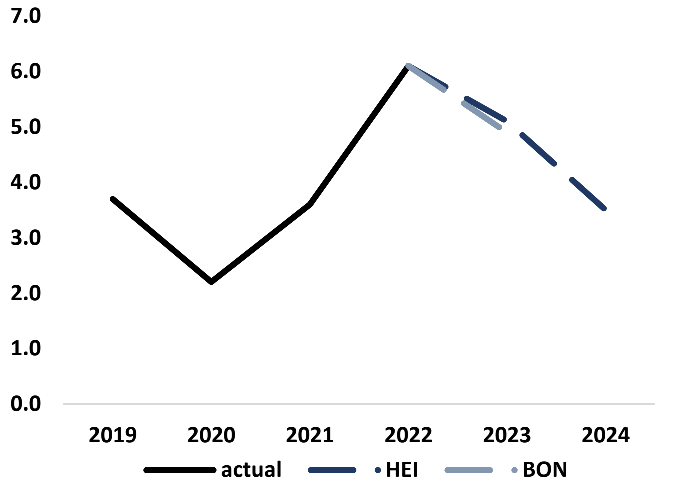
Figure 5: Namibia Gross Domestic Product (GDP) (2019 – 2024*)



Source: IMF, BON & HEI Research

We anticipate inflation to slow down in 2023, compared to 2022 as cost-push factors stabilises, particularly in the food & non-alcoholic beverages and housing segments. We expect the transport basket to stabilise inline with the underlying commodity, with upside risk being the depreciating rand. (figure 6)

Figure 6: Inflation Outlook (2019 – 2024*)



Source: BON & HEI Research

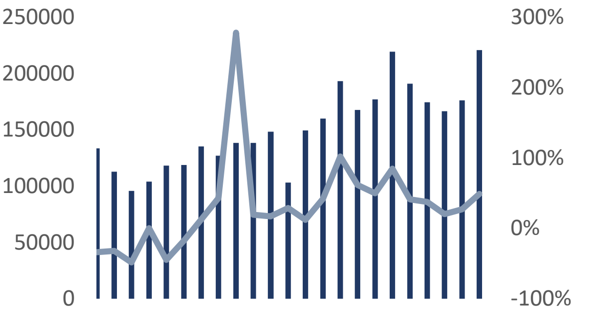
Sectoral Outlook

Mining

We expect mining production to continue on an upward trend primarily because of the improved minerals commodity market supported by increased capital inflows into exploration activities. Growth in the sector is expected to be driven by an increase in diamond production augmented by Debmarine Namibia's mining vessel which began production in the second quarter of 2022.

Despite challenges such as water supply constraints and higher input costs, we anticipate the uranium mining sector to grow at a healthy rate in 2023 as mines are constructing onsite water storage facilities to deal with future water crises. Increased exploration investment into critical minerals and project pipelines to increase access to mineral resources and reserves remain crucial. (figure 7)

Figure 7: Mining Output (2020-2022)



Source: MME & HEI Research

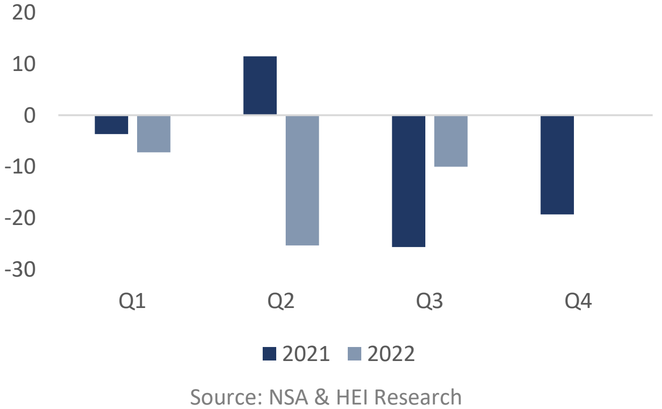
Additionally, the global energy transition due to increasing technological developments and the need for cleaner energy sources also plays a critical role for the mining sector.

With the discoveries of Lithium, oil and natural gas we expect a significant increase in foreign direct investments and mining activity especially in the exploration and testing phases. Announcements of increased gold, uranium fields will also bring value to this industry going forward.

Construction

The sector was hard hit due to the Namibian government's fiscal consolidation and the lack of significant spending on infrastructure projects since 2015. The sector was then further strained by the Covid-19 pandemic and the Russia-Ukraine war. The sector marked its seventh year of consecutive contractions as it remained under pressure in 2022. Poor performance in the sector could have resulted from an increase in construction costs and a decline in the real value of government expenditure on construction. We expect an uptick in the construction sector as green hydrogen pilot projects commence and with Namibia securing a N$2 billion loan from Germany to fund the construction and rehabilitation of key water and road infrastructure in the country. (figure 8)

Figure 8: Construction sector % contribution to GDP (Q12021-Q32022)

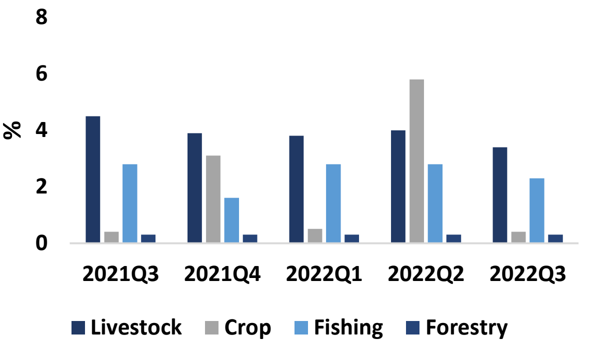


Source: NSA & HEI Research

Agriculture

The sector showed resilience in 2022 with a strong performance recorded during the first quarter of 2022. The boost in agricultural activities during this quarter was driven by a boom in the livestock sub-sector which increased exports of livestock. (figure 9)

Figure 9: Agriculture, forestry, and fishing sector % share to GDP (2021Q3 – 2022Q3)



Source: NSA & HEI Research

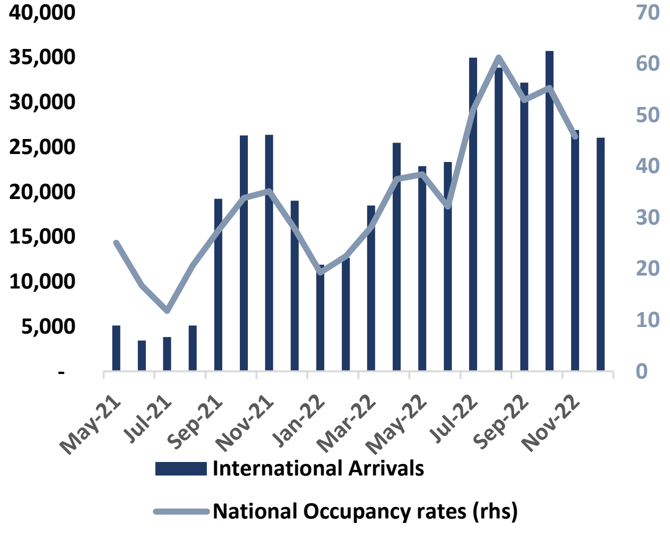
The sector is expected to remain resilient in 2023, owing to better rainfall for crops and improved rangeland conditions for livestock farmers. However, farmers are encouraged to continue diversifying their farming operations to minimize the risk of climatic, sectoral, or economic shocks on production output and sales. Investments in the agriculture sector are essential to boost productivity, precisely focusing on technological change and climate-resilient production techniques.

Tourism

Even in the face of diverse challenges including the economic situation and continued geopolitical uncertainty.

The tourism sector showed signs of improvement augmented by an increase in international and domestic tourist arrivals and positive occupancy rates for 2022. The performance of the sector remains positive for 2023. This is due to continuous positive sentiments expected for national occupancy rates, which in turn leads to an increase in demand for accommodation services. We expect demand for domestic and international travel to remain strong for 2023 and beyond resulting in the sector's wider recovery. (figure 10)

Figure 10: International Arrivals vs. national Occupancy (May 2021-December 2022)



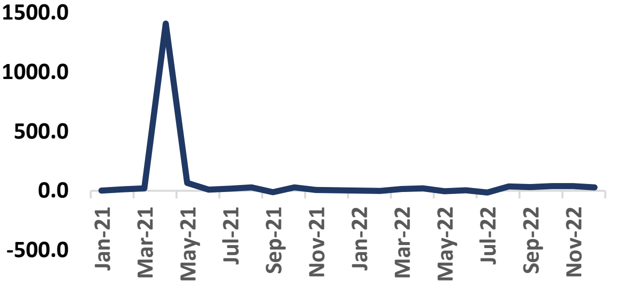
Source: NAC, H.A.N & HEI Research

Wholesale and Retail sales

The sector showed signs of strong performance during the last quarter of 2022 against the backdrop of improved beverage production and the overall recovery of new vehicle sales.

. Vehicle sales for 2022 were remarkable amidst the interest rate hiking cycle which increased the cost of borrowing. Additionally, oil prices are expected to rise owing to the anticipated high demand for oil by China as the economy recovers quickly after backing off zero-COVID policies and the US experiencing only a shallow recession. (figure 11)

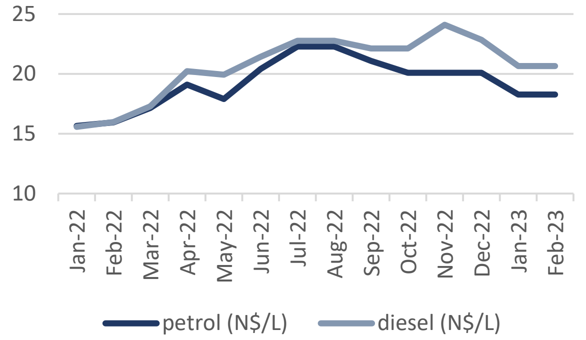
Figure 11: Vehicle sales YoY% growth rates (January 2021-December 2022)



Source: Lightstone Auto & HEI Research

Additionally, oil prices are expected to rise owing to the anticipated high demand for oil by China as the economy recovers quickly after backing off zero-COVID policies and the US experiencing only a shallow recession. An increase in fuel prices could negatively impact the sector as it imports most of its supplies. However, once the fuel price decreases, it will have a sobering effect on vehicle retail. (figure 12)

Figure 12: Fuel prices,
(January 2022 - February 2023)



Source: MME & HEI Research

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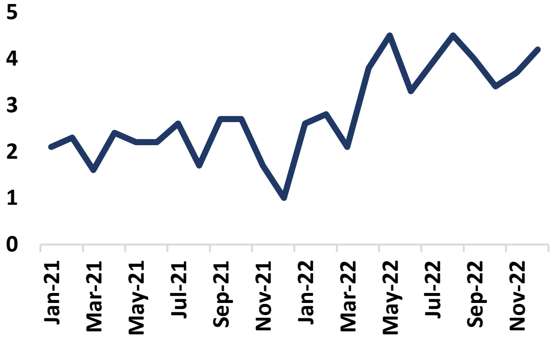
Financial services

The performance of the private sector credit extension improved for 2022. The sector remained sound and resilient to volatility in local and international market performances. The annual growth rate was mainly driven by growth recorded for other loans and advances both for businesses and households. We anticipate moderate growth for the sector in 2023 due to risks and uncertainty associated with interest rates and commodity prices leading to uncertainty in the financial market. (figure 13)

Figure 13: Private Sector Credit Extension (PSCE) YoY% growth rates,
(January 2021-December 2022)



Source: BON & HEI Research

Conclusion

Growth in emerging markets and developing economies is less dependent on advanced economies over the long run, but in the short run they tend to dance together.
China's reopening from Covid-19 restrictions will not only accelerate the country's economic recovery, but it will also boost global economic growth.

China's reopening will likely boost commodities demand and prices, particularly for oil. There will be the broader spill-over effects from Chinese growth—including more favourable global financial conditions and increased trade with other countries.

China's reopening is also likely to boost global inflation but is likely to be minimal, as the inflationary effect of firmer growth is roughly offset by disinflation from easing supply-chain constraints. However, the rising commodity prices will contribute to headline inflation, particularly for oil-dependent emerging markets. Overall we foresee a divergent economic outlook.

Risks to domestic growth are predominantly in the form of monetary policy tightening around the world to contain inflation. Furthermore, with the uncertainty of the Russia-Ukraine conflict likely to not end soon, high prices are expected to remain for affected commodities for which Namibia is a net importer. Other risks include water supply interruptions, potential spillover effects of electricity cuts from South Africa to Namibia, and uncertainties about the effects of climate change going forward.

Below is our forecast for various Namibian economic indicators

Indicator	2022	2023	2024
GDP (%)	3.9 (estimates)	3.5	3.9
Inflation rate (%)	6.1	5.1	4.5
Repo rate (end of period)	6.75	7.50	7.25
USD/NAD (N$)	16.45	18.30	17.50
Fiscal deficit as a % of GDP	5.3	4.9	4.5
Current account balance	N$ -7.9 billion	N$ -6.8 billion	N$ -6.7 billion

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