Institute for Public Policy Research
14 Nachtigal Street, PO Box 6566, Windhoek, Namibia · Tel: (061) 240514 · fax: (061) 240516 · economist@ippr.org.na · www.ippr.org.na

Economy Watch

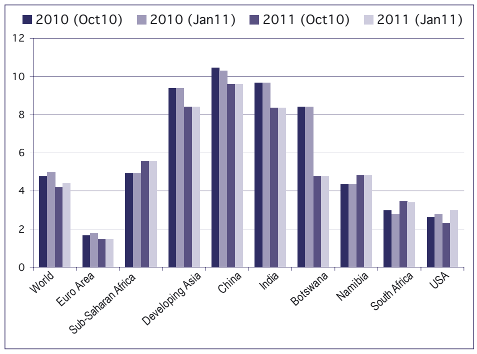
1/2011

Economic outlook

Gross Domestic Product – amount of goods and services produced within a country.

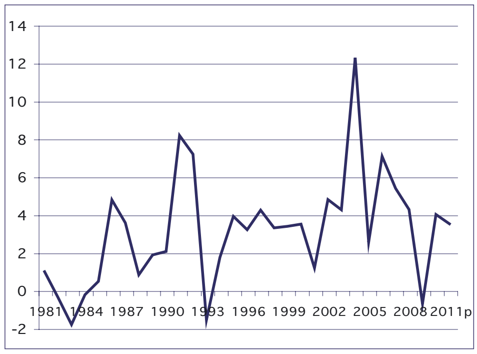
The International Monetary Fund has updated its global economic growth forecast for 2010 and 2011. The world economy is now expected to grow by 4.4 per cent driven by a more robust recovery in the USA and Asian economies. However, it is expected to remain below the growth of 5.0 per cent estimated for 2010. Sub-Saharan Africa is the only region that will perform better in 2011 than in 2010 – growth of 5.5 per cent is projected compared to 5.0 per cent respectively. The IMF predicts also a stronger performance of the Namibian economy, namely 4.8 per cent compared to 4.4 per cent in 2010. We believe that the forecast for Namibia for 2011 is on the optimistic side and expect growth in the range of 3.5 per cent. Growth in 2010 was mainly driven by a substantial increase in diamond output (up by 57 per cent). However, diamond production will most likely stay flat during 2011. On the other hand, the re-opening of two copper mines, commencement of production at the Ohorongo cement factory and improved prospects for agriculture bode well for 2011. But there are down side risks, mainly owing to the sovereign debt crisis in Europe and high fiscal deficits and trade imbalances in the USA, high unemployment rates in the USA and Europe that dampen private consumption, increasing food and oil prices (see below), and geopolitical factors such as political instabilities in North Africa and the Middle East. Since the latter events are still unfolding, the concrete impact on the world economy is currently difficult to assess, but it increases uncertainties and can dent investor confidence in emerging markets. Furthermore, since one of the most important shipping routes passes these regions and since the world's major oil exporters are located in these regions, any prolonged and extending instability will have a serious negative impact on the world economy.

GDP growth estimate for selected regions and countries for 2010 and 2011



Source: IMF Economic Outlook October 2010 & January 2011
Note: The month and year in brackets refer to the respective dates of the IMF publication

Namibia: GDP growth 1980 to 2009



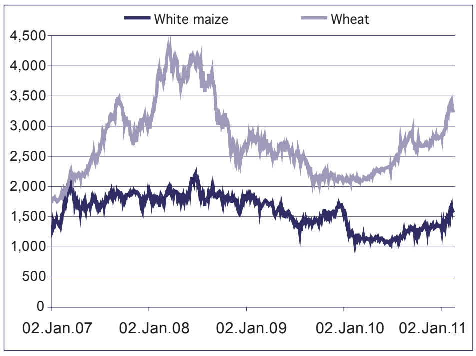
Source: Central Bureau of Statistics 1980 - 2009
Note: 2010 and 2011: own projections

Food prices

White maize and wheat are major crops produced and consumed in Namibia but prices are influenced by world market prices.

Food prices eased substantially after the hikes in 2008 mainly owing to the economic downturn and the consequent drop in demand. While white maize prices continued this trend for most of 2010 owing to good harvests, wheat prices have increased by 37.5 per cent since the second half of 2010 and by 10.7 per cent since January 2011. The main reason was a severe drought and subsequent field fires in Russia – one of the main producers and exporters – that resulted in the closure of borders for all wheat exports. Since wheat is the main ingredient for bread it is expected that bread prices are set to increase. Government could respond by strengthening the social safety net – rather than VAT exemptions – in order to protect the most vulnerable groups in society.

White maize and wheat prices in NAD/ton from Jan 2007 to Feb 2011



Source: SAFEX - daily data

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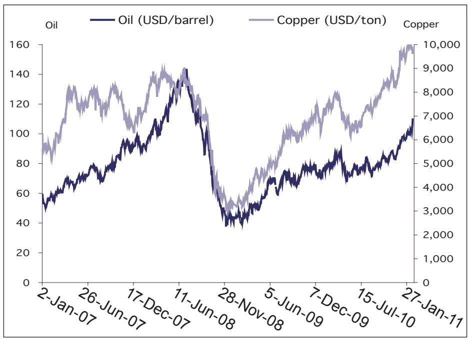
Commodity prices

Prices for unprocessed minerals and crops.

Most commodity prices have recovered well after the drastic drop during the economic crisis. Copper prices have broken the threshold of US$10,000 per ton (and hence have exceeded pre-crisis levels by far) during February, while oil prices have crossed the US$110 per barrel mark in particular after the uprising in Libya. While some price effects can be explained by the economic recovery in developed countries and continuous robust growth in Asia, other factors such as speculation, the weak US dollar vis-à-vis other major currencies that makes stockpiling relatively cheap, play a role as well. Financial investment in commodities such as copper indicates growing investor confidence about the path of economic recovery. This is underlined by the slight weakening of the gold price that is usually regarded as a safe haven during times of economic and political uncertainties. Further increases in oil prices can be expected while the political instability in the Middle East continues and this could trigger inflationary pressure and monetary tightening negatively affecting the economic recovery. Based on the current oil price and exchange rate trends Namibia has to brace for further fuel price hikes in the months to come.

Oil and copper prices – January 1997 to 23 February 2011



Source: London Metal Exchange (copper) – daily data,
US Energy Information Administration (oil) – daily data

Price trends of major commodities

Commodity	03.Jan.11	24.Feb.11	Change
Oil (USD/barrel)	93.52	115.77	23.8%
Copper (USD/ton)	9,750.00	9,439.50	-3.2%
Zinc (USD/ton)	2,470.00	2,425.00	-1.8%
Uranium (USD/pound)	62.50	68.75	10.0%
Wheat (NAD/ton)	2,825.00	3,127.00	10.7%
White maize (NAD/ton)	1,317.00	1,500.00	13.9%

Exchange rates

Amount of Namibia dollar per unit of foreign currency.

The Namibia dollar (NAD) has weakened between 8 per cent and 13 per cent against major currencies despite the quantitative easing by the Federal Reserve Bank of the USA and the sovereign debt crisis in a number of EU member countries. However, it is expected that the Namibia dollar remains strong during this year owing to the low interest rate levels in the USA and Europe, which attracts capital inflows from these economies.

Selected financial market indicators

	03.Jan.11	23.Feb.11	Change
NAD per USD	6.6238	7.1257	-7.6%
NAD per GBP	10.2665	11.5547	-12.5%
NAD per Euro	8.7954	9.7772	-11.2%
JSE All Share Index	32,308.11	31,932.07	1.2%
NSX Overall Index	874.76	876.71	-0.2%

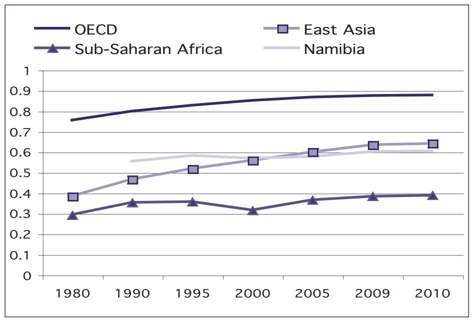
Human Development Index (HDI)

The HDI consists of three components: health (Life expectancy), education (mean and expected years of schooling) and living standard (Gross National Income in Purchasing Power Parity Prices).

Namibia is doing better than the average of sub-Saharan Africa. However, sub-Saharan Africa has improved at a faster rate than Namibia in terms of its human development. Moreover, Namibia ranks 14 places higher in terms of Gross National Income (GNI) per capita than in terms of HDI indicating that the country's income has not been used to the same extent as in other countries to improve the standard of living of the population. This is further reflected in a new index introduced in the latest report, namely the Inequality-adjusted HDI (I-HDI). Namibia's I-HDI is some 44 per cent below its HDI indicating the second largest gap between both indices for all countries, only exceeded by Mozambique.

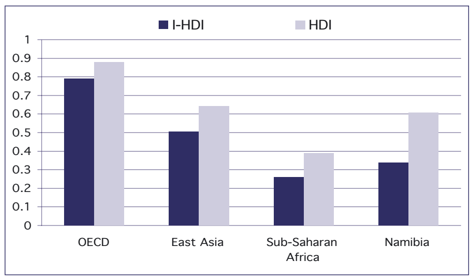
Whereas Namibia's HDI (0.606) comes close to that of Asian countries, her I-HDI (0.338) is only slightly higher than that of the sub-Saharan African average. This is due to the disparities in income distribution, while access to health and education is less unequal. Renewed efforts are needed to narrow the income gap and improve access to quality education and health. Last but not least a more equal distribution of income combined with enabling people to live up to their potential will support economic development in Namibia.

Human Development Index for selected regions



Source: UNDP, Human Development Report 2010

Comparison of HDI and I-HDI for selected regions



Source: UNDP, Human Development Report 2010

Hanns Seidel Foundation Namibia

Economy Watch is compiled by IPPR Research Associate Klaus Schade (economist@ippr.org.na) and is financially supported by the Hanns Seidel Foundation (HSF). Economy Watch can be downloaded from www.ippr.org.na or www.hsf.org.na and printed copies are available from the IPPR or HSF