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

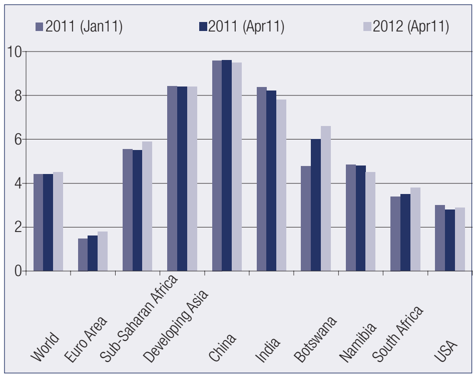
2/2011

Economic growth prospects

Gross Domestic Product (GDP) – amount of goods and services produced within a country

The International Monetary Fund (IMF) revised its growth forecast in April 2011 for 2011 and 2012 slightly compared to its prediction in January 2011. While globally growth prospects remained unchanged at 4 per cent for 2011, the forecasts for the EU area and in particular Germany were revised upwards. This bodes well for Namibian exporters since the EU is one of its main export destinations. On the other hand, economic growth prospects for the USA were revised downwards. The IMF is sticking to its view that the Namibian economy will grow by 4.8 per cent in 2011 and 4.5 per cent in 2012. The government's expansionary budget, the commencement of cement production and re-opening of two copper mines support an optimistic outlook. However, the decline in uranium production by 28 per cent during the first quarter of 2011 compared to the last quarter of 2010 (mainly owing to high rainfall in mining areas, lower grades of deposits and lower extraction rates), stagnation in diamond production and a lower output for crop production in the communal areas due to flooding suggest that the IMF prognosis is too optimistic and growth in the range of 4 per cent is more likely.

IMF GDP growth forecast for 2011 and 2012 for selected countries



Source: IMF Economic Outlook April 2011

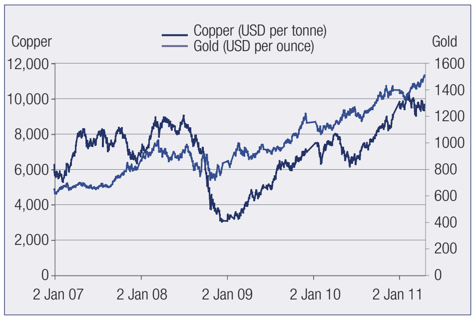
Mineral prices

Price for unprocessed minerals

USD – United States of America dollar

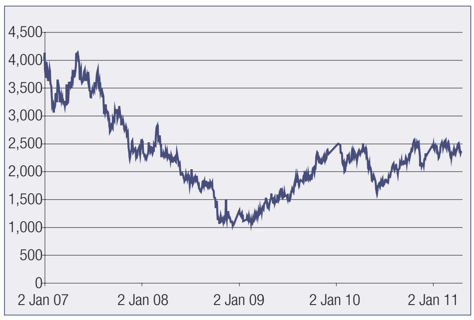
Gold (as well as silver) has played out, once again, its role as a safe haven for investors among prevailing uncertainties. The gold price exceeded the USD1,500 per ounce mark on the 20th of April 2011 and has increased by 8 per cent this year. Its upward trend is supported by weaknesses of the USD, in particular after the announcement by the rating company Standard & Poor that it might downgrade the credit rating of the USA from AAA over the next two years. A downgrading implies that the cost of credit for the US government, private sector and private households would increase, which would in turn negatively affect economic growth. The USA could follow in the footstep of several European countries whose credit ratings were significantly downgraded resulting in bail outs by their European peers and steeply rising borrowing costs. The downgrading could herald the end of the USD domination of the global economy. On the other hand, investors moved out of copper owing to more cautious expectations regarding the global economic recovery after the devastating earthquake and tsunami that hit the world's third largest economy, Japan. Copper prices declined by 1.4 per cent to USD9,610.50 per tonne since the beginning of the year, but have displayed considerable price fluctuations. Zinc prices suffered an even greater decline by 5.4 per cent to USD2,336.00 over the same period and have not yet

Copper and Gold prices, Jan 1997 to Apr 2011



Source: London Metal Exchange (copper), World Gold Council (gold)

Zinc prices, Jan 2007 to Apr 2011



Source: London Metal Exchange

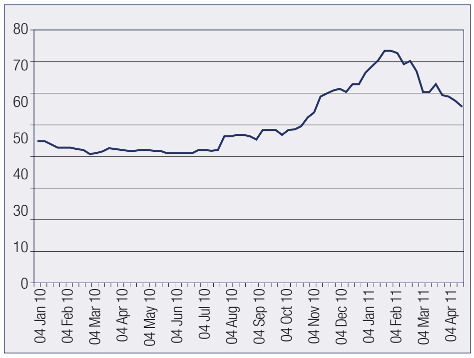
Economy Watch is produced by the Institute for Public Policy Research (IPPR) every second month.
Please send a message to info@ippr.org.na if you wish to be on the email list for Economy Watch.

reached pre-crisis levels. The future for mineral prices, however, does look good since the reconstruction of the regions in Japan affected by the tsunami will increase the demand for minerals.

Uranium industry

The 26 April 2011 marked the 25th anniversary of the Chernobyl nuclear accident in the Ukraine. The 30km no-go zone around the power plant is still in place. The accidents at the Fukushima Daiichi nuclear power plant in Japan after a major earthquake that triggered a tsunami almost coincided with this anniversary. Governments have borne a large part of the costs for the necessary clean-up after such accidents. The risks and costs involved in nuclear power plants have sparked demonstrations in various countries, among others in France, Germany and India and have led to the temporary shut-down of power plants in Germany. Consequently, the price for uranium dropped by 11 per cent from USD62.50 per pound at the beginning of 2011 to USD55.50 per pound on 25 April 2011. The renewed public debate about the safety of nuclear power plants and the actual costs as well as the decline in prices can have a negative impact on planned investments in Namibian uranium projects in the short and medium term and subsequently affect expected government revenue from company taxes and royalties from the uranium mining industry.

Uranium price in USD per pound, Jan 2010 to Apr 2011



Source: Ux Consulting Company

Inflation outlook

Inflation – price increases in per cent for goods and services compared to the previous month or the same month in the previous year.

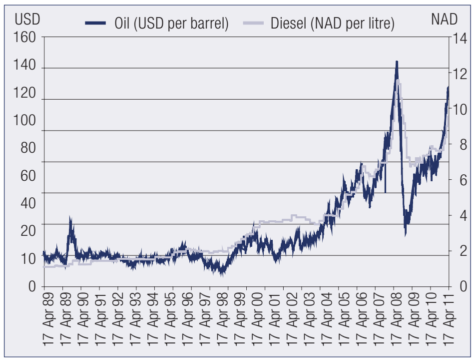
NAD – Namibia dollar

Repo rate: The interest rate the Bank of Namibia charges for lending money to commercial banks

Oil price increases owing to protracted instabilities in North Africa and the Near and Middle East pushed up oil prices towards the USD130 per barrel benchmark. This has resulted in monthly fuel price increases in Namibia this year. Petrol 93 and diesel prices in Windhoek increased by 20.5 per cent and 24.2 per cent respectively this year and are approaching price levels last seen in 2008. More price increases can be expected due to the prevailing security situation in the regions mentioned above and an expected weakening of the Namibia dollar against the US dollar later this year. On the other hand, food price inflation has not yet reached the expected levels and international wheat and maize prices have decreased, in part owing to the drop in demand amongst others from Japan. This might be, however, short lived.

While the inflation rate took a rather surprising dip in February (3.1 compared to 3.5 in January), it rose to 3.8 per cent in March 2011. The effects of higher transport costs, rebounding crop prices and possible inflationary pressure from the expansionary budget are likely to result in an acceleration of price rises in the coming months. An average inflation rate of 5 per cent is expected for the whole of 2011. As expected the Bank of Namibia decided in their meeting on 27 April 2011 to leave the repo rate unchanged at 6.00 per cent. We expect that the bank will adjust the interest rate upwards towards the end of the year owing to the rising inflation rate.

Trends in oil (USD per barrel) and diesel prices (NAD per litre), Apr 1989 to Apr 2011



Source: Energy Information Administration (oil), Ministry of Mines and Energy (diesel)

Electricity supply and demand

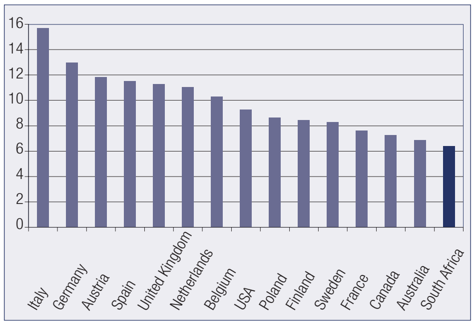
The World Economic Forum released its Green Investing Report 2011. According to the report, USD243 billion was invested globally in clean energy sources in 2010. This is half the annual investment target needed by 2020 in order to achieve the commitment, reiterated by the 16th Conference of Parties in Cancún/Mexico in December 2010, of limiting the global temperature increase to 2°C above pre-industrial levels. China led the largest investing countries with USD54.5 billion mainly used to increase its installed wind energy capacity by 17 Giga Watt. However, 2010 also saw a substantial amount of new capital that went into small-scale commercial and residential photovoltaic systems. These investments were to a considerable degree the result of various governments' clean energy stimulus spending.

Africa and Namibia are trailing behind the international trend. NamPower's CEO reportedly said recently that "there will be a period when we will struggle a little bit (with electricity supply), especially between 2013 and 2016". The focus appears to be exclusively on the supply side in order to address growing demand. Planned diesel and coal-fired power plants will increase Namibia's dependence on imported fossil fuels and our vulnerability to rising international prices and fluctuating exchange rates. Electricity generation based on fossil fuels will also contribute to further global warming and climate change. Domestically available renewable energy sources are hardly tapped. The sector has so far attracted only one Independent Power Producer that is running a wood gasification plant on a pilot basis. The Ministry of Mines and Energy has just revived its Solar Revolving Fund to the tune of NAD10 million in order to encourage private households to invest in solar home systems. We have, however, not yet realised or at least not embraced the potential for fostering local manufacturing, expanding exports and creating "green jobs", and improving our balance of payments by supporting renewable energy sources. Attractive feed-in tariffs for commercial and private electricity producers, unbundling electricity generation from production and review the single buyer position of power utilities would result in a more conducive environment for private investment in renewable energy sources.

There is, however, room to address the demand side as demonstrated a few years ago with the free distribution of energy saving bulbs. But much more can be done in this regard. Using more electricity-efficient technologies, supporting energy audits and replacing electric geysers with Solar Water Heaters on a larger scale would go a long way in reducing demand for electricity and hence addressing potential supply constraints in a short period of time. The announced Environment Tax could be designed in such a way that it taxes the use of energy from fossil fuels but not from renewable energy sources and thus supports a shift to a greener and more sustainable economy.

Further reading: World Economic Forum, April 2011, The Green Investing Report 2011: Reducing the Costs of Financing, (http://www.weforum.org).

Global electricity prices in US cents per kW



Source: NUS Consulting Group

The National Budget 2011/12

Expenditure
– payment for goods and service purchased by government

Capital expenditure
– payment for the acquisition of land, buildings and durable goods (machinery, technical equipment)

Tax revenue
– government income from various tax sources such as income tax and Value Added Tax

Non-tax revenue
– government income from interest, dividends, rents, mineral royalties, fines, etc.

Budget balance
– deficit or surplus as a percentage of GDP

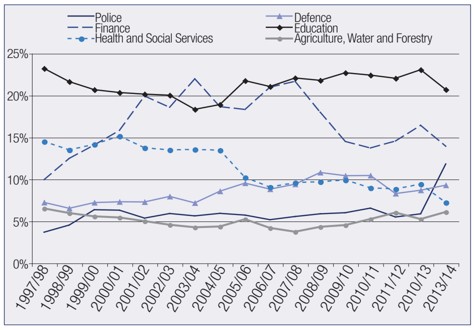
The Minister of Finance, Saara Kuugongelwa-Amadhila, tabled the National Budget for the Financial Years 2011/12 to 2013/14 in the National Assembly on the 9th of March 2011. Government's Targeted Intervention Programme for Employment and Economic Growth (TIPEEG) is the core of the expansionary budget that aims at preserving and creating some 104,000 jobs over the next three years and an additional 82,523 jobs through public work programmes. This initiative follows the release of the 2008 Namibia Labour Force Survey that set the unemployment rate at 51.2 per cent. Even though there are doubts about the robustness of the figure, Government has realised that it cannot continue with business-as-usual, but needs to take bold steps in addressing the issue. Government is financing TIPEEG through an expansionary budget resulting in expenditure increases by Namibia dollar (NAD) 10 billion (bn) - or 30.5 per cent - to NAD37.7bn for 2011/12. The total budget for the Medium-term Expenditure Framework (MTEF) 2011/12 to 2013/14 amounts to almost NAD120 bn, while revenue trails behind at NAD97 bn. This leads to a budget deficit of 6.1 per cent on average over the MTEF period with a peak of 9.8 per cent during the financial year 2011/12. While government has adjusted its fiscal targets in order to accommodate rising expenditures and deficits, the deficit exceeds government's commitment within the Southern African Development Community's (SADC) convergence criteria that set a limit of a 5 per cent budget deficit for members.

While the appropriation bill was still being discussed in Parliament, the finance minister announced an amendment to the budget she just tabled of NAD844 million to cater for salary increments of public servants. This will have a knock-on effect for the following two years of the MTEF period and implies that the ceilings set are already overtaken by events. Since she made no mention of expenditure cuts elsewhere the additional amount will raise the budget deficit to NAD10.5 billion or 10.7 per cent of GDP. The increased deficit will result in higher debt stocks that are expected to reach 34.6 per cent of GDP in 2013/14, close to the already upward adjusted target of 35 per cent. However, debt levels will stay below the international and SADC benchmark of 60 per cent.

Furthermore, since remuneration expenditure is already increased by 12 per cent for 2011/12 compared to 2010/11 while the number of funded positions is growing by 2.9 per cent only from 92,730 to 95,458 the additional allocation to salaries will result in a salary increment of 16.8 per cent on average. This is way above the inflation rate of some five per cent expected for 2011 and comes in addition to salary increases of 12.5 per cent for each of the previous two financial years. Since the economy is picking up again and because of government's expansionary budget including lump sum payouts for war veterans that will push up consumptive expenditure, the additional salary increases can fuel inflation that is on the rise already.

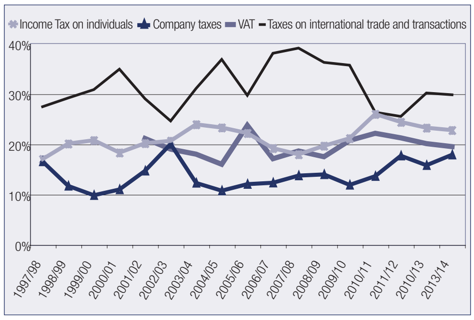
Further reading: IPPR Briefing Paper No. 54: The National Budget 2011/12 – Bold steps, in the right direction?, (http://www.ippr.org.na)

Trend in major expenditure categories in per cent of total expenditure, 2001/02 to 2013/14

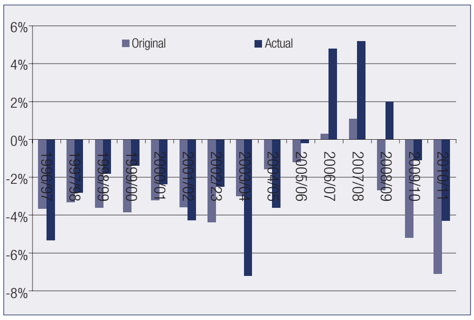


Note: The graph excludes the effects of the additional NAD844 million for salary increases

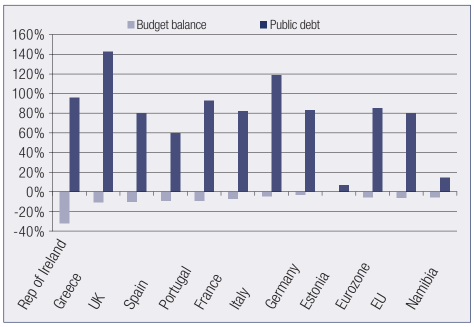
Trend in major tax revenue sources in per cent of total revenue, 1998/99 to 2013/14



Comparison of expected and actual budget deficit in per cent of GDP, 1996/97 to 2010/11



Namibia's budget balance and public debts in comparison to selected European countries in per cent of GDP, 2010



Source: Eurostat (EU countries), Ministry of Finance (Namibia)

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