



Economy Watch Namibia

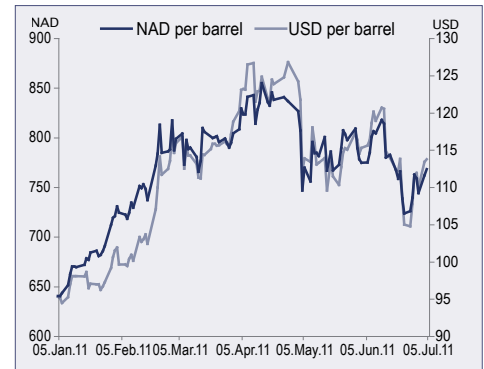
Oil and fuel prices

NAD – Namibia dollar
USD – United States of America dollar

Barrel of oil – 158 litres

Oil prices were on the increase until the end of April when Europe Brent Crude Oil peaked at over USD 126 per barrel. Since then prices declined and hovered around USD115 per barrel. However, when OPEC decided at its meeting at the beginning of June not to increase output in order to meet rising demand prices exceeded USD120 again, although Saudi Arabia unofficially made good for the 1.6 million barrel per day production loss from Libya. After the announcement by the International Energy Agency about the release of 60 million barrels of strategic reserves, prices dropped to below USD110 for a short period at the end of June 2011. The price decline was further supported by China's lower oil imports in June (down by 11.5 per cent compared to a year ago), a strengthening of the USD against other currency and uncertainties regarding the robustness of the recovery of the US economy owed to persistently high unemployment figures and high public debts. Since the Namibia dollar strengthened slightly over the past six weeks against the USD, the consumer will feel the benefits of the accumulated effects and experience for the first time this year a decrease in fuel prices becoming effective on 13 July 2011. Prices for both petrol and diesel will drop by 15 cents per litre, despite an increase in the Motor Vehicle Accident Fund levy (2 cents per litre) and the dealers and industry margin (each increased by 3 cents per litre). However, the joy might be short-lived since the release of strategic reserves will provide temporary relief only and the NAD is generally viewed as overvalued against the USD.

Oil prices in USD and NAD per barrel



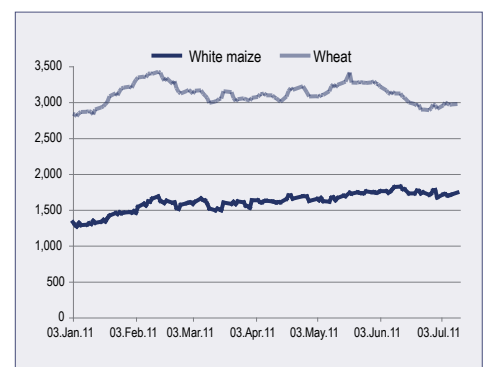
Source: Energy Information Administration daily data (USD).
Authors' own calculation based on daily exchange rates from the South African Reserve Bank (NAD).

Crop prices

White maize and wheat are major crops produced and consumed in Namibia but prices are influenced by world market prices. Wheat is grown under irrigation only, while 50 per cent of commercially produced maize is irrigated.

Wheat prices stayed above NAD3,000 per metric ton for most of the year but dropped since the middle of June. Maize prices increased gradually over the year but fell at the end of June by 10 per cent after indications that US farmers are sowing larger than expected amounts of grain. The easing of prices was further supported by expectations that Russia will open her borders for crop exports again. Russia is a major producer and exporter of wheat, but closed the border roughly a year ago after a devastating drought and fires that destroyed the crop to a large extent. However, it remains to be seen whether the planting of crops results in increased production that could ease food price inflation. Moreover, Namibia needs to improve the productivity of the agronomy sector in particular the subsistence agricultural sector in order to increase production and food security (see also section below).

White maize and wheat prices in NAD per metric tonne



Source: SAFEX daily data

Maize productivity

A recent World Bank study analysed maize yields per hectare and growth in production across Africa. Maize yields are lowest in Southern Africa with the exception of South Africa and averaged about 1.1 tons per ha compared to 1.7 tons/ha in West and 1.5 tons/ha in East Africa. This is below average yields in other parts of the world such as Philippines (2.5 to/ha), Brazil (3.8 to/ha) and Thailand (3.9 to/ha) and the gap is widening since growth rates of yields differ as well. Over the period 1961 to 2008, average yields grew by one percent in sub-Saharan Africa, but by 2.4 per cent in Brazil and 1.6 per cent in Thailand, for instance. Obviously, various

Further reading: Smale, Belinda, Derek Byerlee, Thom Jayne, 2011, Maize Revolutions in Sub-Saharan Africa. World Bank Policy Research Working Paper 5659; and http://www.ngrguardian-news.com/index.php?option=com_content&view=article&id=42027:agra-taking-seed-companies-to-higher-heights

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factors affect the average yield in a country such as the extent of irrigated crop production, soil quality, availability of inputs such as fertilisers and improved seeds, and farm management practices.

There are some lessons Namibia can learn from this study: Farm management practices such as Conservation Tillage and Conservation Agriculture including using organic matters to improve the soil quality have shown encouraging results not only in neighbouring countries such as Zambia but also in pilot projects in Namibia. The yield of millet has increased from an average of 300kg/ha to more than 2,000kg/ha. The study also highlighted the importance of policies and the seed industry. While the Interim Seed Council in Namibia met this year again after it fell dormant for quite a while, two important bills, the Seed and Seed Variety Bill and the Plant Breeders' and Farmers' Rights Bill, have been drafted, but not yet been enacted. Likewise, the SADC Harmonised Seed Regulatory System was signed by the minister but has not yet been implemented in Namibia.

While it is important to harmonise systems on a regional level it is also important to acknowledge the role of local genetic seed varieties that are adapted to local conditions and are often better positioned to cope with changes in the environment, such as climate change, than seeds imported from elsewhere. Furthermore, the use of the same seeds across regions increases the vulnerability to diseases and adverse weather conditions. Applying farm management practices and seeds most suitable to the Namibian environment and supported by policies based on best practices and improved access to financial services for small-scale farmers can improve the productivity and increase production that in turn will help to address rising food prices.

Inflation

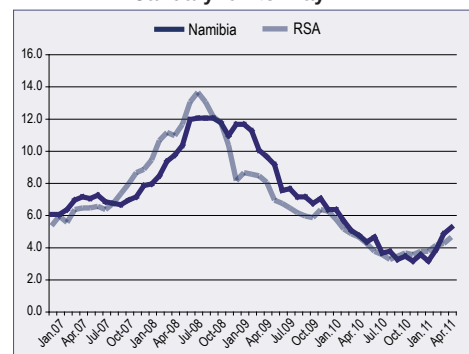
Inflation – price increases in per cent for goods and services compared to the previous month (monthly inflation rate) or the same month in the previous year (annual inflation rate).

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

Price increases accelerated further resulting in an annual inflation rate of 5.4 per cent in June 2011, while the month-on-month inflation slowed down to 0.2 per cent in June from 0.5 per cent in May and 0.9 per cent in April. Price increases were particularly felt in the category of housing, water, electricity, gas and other fuels that recorded an inflation rate of 10.6 per cent. Implemented price increases for water and other housing-related costs by the City of Windhoek and expected electricity price hikes will keep inflation high for this category that constitutes 20.6 per cent of the average consumption basket of a household. Other categories that recorded above average price rises included alcohol (6.6 per cent), health (5.8 per cent) and food (5.8 per cent). Stable fuel prices in June and declining fuel prices in July will at least temporarily ease price pressure in the transport sector although previous price increases have still to tickle down.

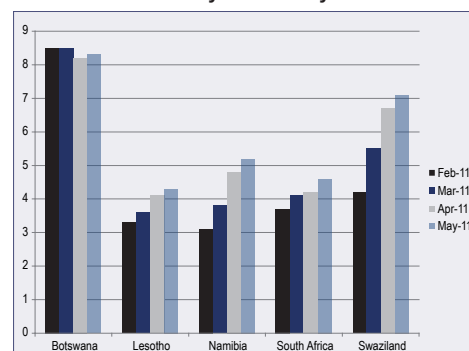
Namibia is ranked in the middle among other SACU countries regarding inflation. Botswana has recorded the highest inflation within SACU throughout the year, peaking at 8.3 per cent in May, followed by Swaziland with 7.1 per cent. Lesotho performed best with 4.3 per cent, followed by South Africa with 4.6 per cent. It is expected that we will end the year with an average inflation rate of slightly above 5 per cent for 2011. The rising inflationary pressure could result in the Bank of Namibia reviewing its current monetary policy stance and increase the repo rate in order to keep inflation within the 3 to 6 per cent band.

Inflation rates for Namibia and South Africa, January '07 to May '11



Sources: Central Bureau of Statistics (Namibia) and South African Reserve Bank (South Africa).

Inflation rates within SACU, February '11 to May '11



Source: SACU Inflation Reports.