Institute for Public Policy Research
14 Nachtigal Street PO Box 6566 Ausspannplatz Windhoek Namibia Tel: +264 61 240514 Fax: +264 61 240516 economist@ippr.org.na www.ippr.org.na

Economy Watch Namibia – July 2012

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Global and domestic economic prospects

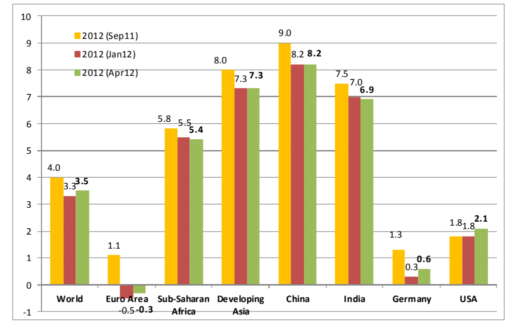
Namibian Business and Investment Climate Survey is a joint survey by NCCI, NMA and IPPR. The report is available among others on IPPR's web site (www.ippr.org.na)

Growth prospects remain suppressed. Latest data from China indicates that economic activities in the second quarter 2012 expanded by only 7.6 per cent compared to 8.1 per cent during the first quarter. Growth of the Chinese economy for the whole of 2012 is expected to be about 7.5 per cent, significantly lower than the IMF's forecast of 8.2 per cent in April 2012. Not much stimulus is expected from developed economies. The Federal Reserve Bank of the USA does not plan any immediate further quantitative easing, while the European Central Bank cut the interest rate by 25 basis points to 0.75 per cent. This has resulted in funds being shifted from the eurozone to other, more profitable countries and a subsequent weakening of the Euro against the US dollar. The Euro dropped to its lowest level against the USD since June 2010, which can support export-led growth in the eurozone. However, uncertainties remain about the sovereign debt crisis with Spain's and Italy's borrowing costs approaching unsustainable levels. The debate in the EU continues about balancing necessary austerity measures with likewise needed growth and job-enhancing policies.

Results from the latest Namibian Business and Investment Climate Survey, namBIC 2012, indicate that business people are not as upbeat about this year's business climate as they were in 2011. They also intend to invest less than last year. Production data from the Ministry of Mines and Energy reveals that diamond production increased by 1.4 per cent and gold production by 20 per cent compared to the same period a year ago. The slow-down in economic activities elsewhere has not affected these two sub-sectors of the mining industry, but has resulted in lower spot market prices for other minerals such as copper and zinc.

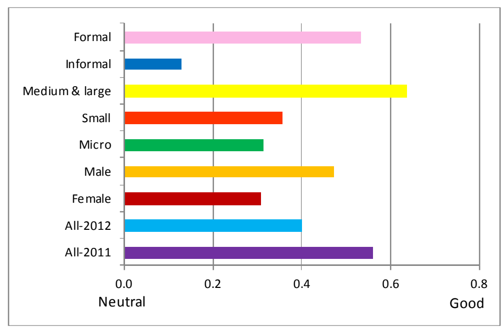
Consumer demand remains high in Namibia as reflected in vehicle sales and consumer instalment credit growth. Total vehicle sales for the first half of 2012 reached 7,107 units translating into an increase of 22 per cent compared to the first half of 2011. Growth in consumer demand and credit, however, is of concern to the Bank of Namibia and could influence its future monetary policy stance.

IMF growth forecasts for 2012 in various publications



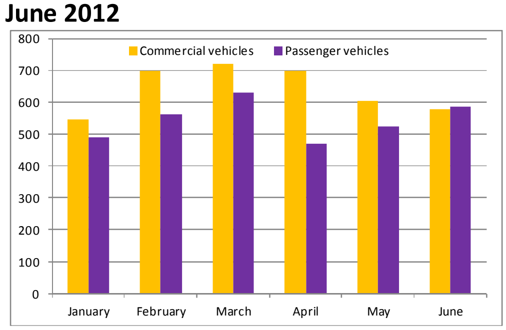
Source: IMF, World Economic Outlook, various publications.

Rating of business climate for 2012 by different categories of respondents



Source: namBIC 2012

Sales of new vehicles in Namibia, Jan. to June 2012



Source: Namibia Equity Brokers, monthly reports

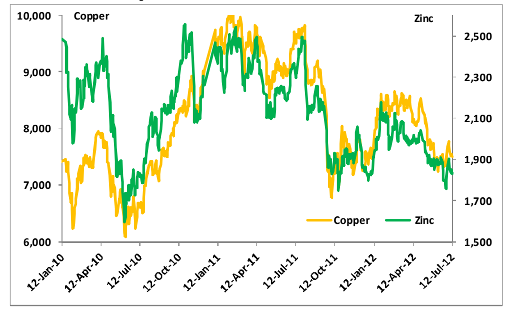
Mineral prices

Price for unprocessed minerals

Although gold is regarded as a safe haven in times of uncertainties, it has lost value since February 2012 and was trading at about UDS1,600 per ounce at the beginning of July compared to almost USD1.800 at the end of February. Despite the recent drop in prices, markets expect gold to hit record levels by year's end owing to prevailing economic uncertainties and lower growth prospects.

After some gains during April, copper and zinc prices returned to levels seen at the beginning of 2012 (about USD7,500 and USD1,830 per tonne respectively). Lower prices are a result of a slowdown in growth in particular in China's manufacturing sector and subsequently a drop in demand. Uranium prices have shed some ground as well since the beginning of the year (-2.4 per cent) and stand currently at USD50.75 per pound. The current economic climate suppresses strong demand for additional electricity generation and in turn the demand for fuels such as uranium. As said earlier, the low spot market prices could result in uranium mining companies stretching their investment plans in Namibia over a longer period of time.

Copper and zinc prices in USD per ton, Jan. 2010 to May 2012



Source: London Metal Exchange, daily data

Oil and fuel prices

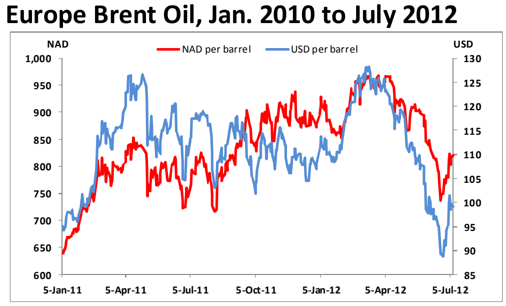
NAD – Namibia dollar

USD – United States of America dollar

Barrel of oil – 158 litres

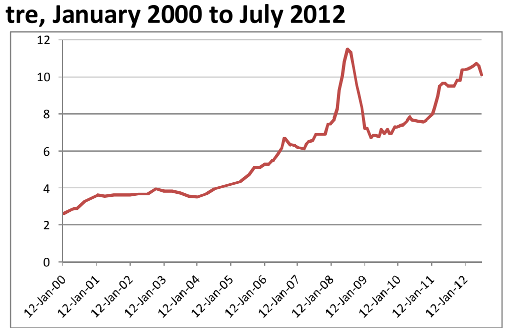
Oil prices rebounded in the past two weeks based mainly on two factors: The outcome of the EU summit alleviated fears of a banking crisis in Europe (in particular Spain) and hence increased hopes of stronger growth. In addition, there are indications that Saudi Arabia, which has increased production to make good of any potential shortfall from the Iran embargo, might cut back oil production. This led to Europe Brent Oil prices exceeding USD100 per barrel for a day (4 July) before retreating to below USD100 per barrel. Oil prices are currently almost 11 per cent lower than at the beginning of 2012. Domestic fuel prices followed the trend but to a lesser degree. Petrol prices are back to the same level as at the beginning of the year, while diesel prices have dropped 2.7 per cent lower. Domestic fuel prices declined slower than global oil prices owing to the slight depreciation of the local currency against the USD and the increase in the retailer margin and the MVA Fund levy that are included in the pump price. Since oil prices are closely linked to economic growth prospects in the USA and China, the main consumers of the commodity, the likelihood of stronger price increases is remote. However, geopolitical instabilities, such as the stand-off regarding Iran's nuclear programme and instabilities in other regions have had strong impacts on oil futures and could again reverse current trends of comparatively low prices.

Oil prices in USD and NAD per barrel for Europe Brent Oil, Jan. 2010 to July 2012



Source: Oil price - Energy Information Administration, daily data. Converted into NAD based SARB on daily exchange rates by the authors.

Diesel prices for Windhoek in NAD per litre, January 2000 to July 2012



Source: Ministry of Mines and Energy.

Crop prices

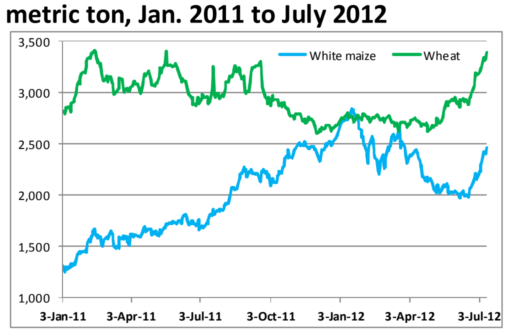
ZAR – South African rand

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

Despite new technologies, agricultural production remains susceptible to weather conditions. This has been proven again in the case of the USA; the main producer and exporter of maize. While a short while ago the US Department of Agriculture expected a record harvest for this year, since farmers planted larger areas, the worst drought since 1988 has hit the main crop producing areas and resulted in a downward adjustment of production by 12 per cent.

This resulted in a recovery of prices. Wheat prices have gained more 23 per cent compared to beginning of the year, while maize prices are still 9 per cent lower, although they have increased by 25 per cent since the beginning of

Wheat and white maize prices in ZAR per metric ton, Jan. 2011 to July 2012



Source: SAFEX, daily data

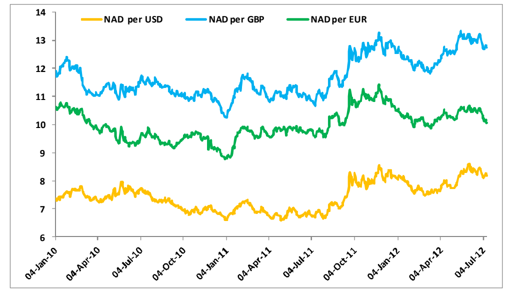
June 2012. This is a clear sign of the price rising effect of the drought in the USA.

Exchange rates

Price in Namibia dollar for one unit of a foreign currency

The South African rand, and hence the Namibia dollar, gained some grounds beginning of July against the US dollar, because June marked the year end for a lot of South African companies, which led to the repatriation of foreign funds in order to meet financial obligations. However, the rand remained above the threshold of ZAR 8 for USD 1, since importers cashed in on the appreciation. Since then, however, the currency lost again value against major currencies, mainly because investor sentiments turned against emerging markets.

Exchange rates of the NAD for major currencies, Jan. 2010 to May 2012



Source: South African Reserve Bank, daily data

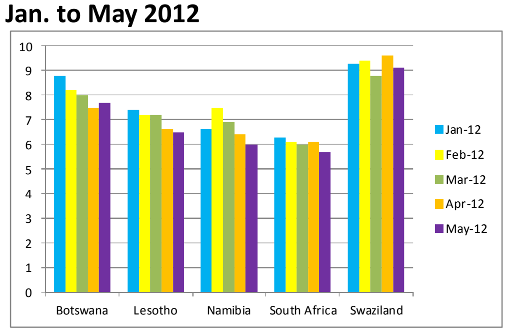
Inflation

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).

After inflation hit a high of 7.2 per cent in February 2012, the highest inflation rate since August 2009, price increases slowed down continuously to 5.6 per cent in June 2012. This is mainly attributed to lower price increases for the two components of foods and non-alcoholic beverages, and housing, water and electricity. These two components account for 50 per cent of the consumption basket on which the calculation of the inflation rate is based. Food inflation dropped from almost 10 per cent in February to 6.7 per cent in June, while the inflation rate for housing, etc. declined continuously from 9.2 per cent in December 2011 to 4.4 per cent in June. Transport inflation hovered around seven to eight per cent since beginning of 2012, but is expected to drop further owing to the cut in petrol prices since May 2012. Namibia's inflation rate ranks the second lowest within the Southern African Customs Union after South Africa (5.7 per cent), while Swaziland remained the country hardest hit by price increases (9.1 per cent).

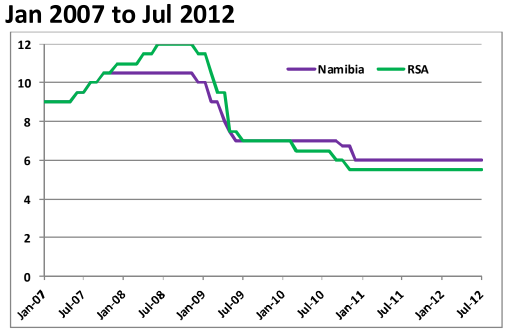
The Bank of Namibia maintained its repo rate despite declining foreign currency levels (down from NAD15.5 billion in April to NAD13.9 bn in May). The main objective of its monetary policy stance is to maintain the currency peg with the South African rand, which depends on sufficient foreign reserves. On the other hand, the Bank expressed its concerns about increased consumer spending and instalment growth. Private household consumption diverts financial resources from more productive sectors and lowers the saving rate and subsequently investment. Investment in productive sectors, however, is required to create economic growth and employment opportunities.

Annual inflation rates for SACU countries, Jan. to May 2012



Source: SACU Secretariat

Repo rates in Namibia and South Africa, Jan 2007 to Jul 2012



Source: South African Reserve Bank and Bank of Namibia

Namibia's performance in international comparison

International surveys offer the opportunity to compare ourselves with other countries and learn some lessons how to do better. Hence, a brief review of recently released survey results puts Namibia's performance in global perspective.

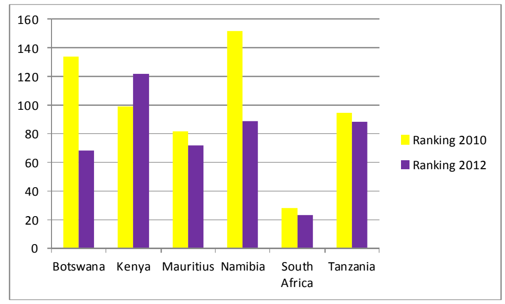
The World Bank has published its third Logistics Performance Index (LPI) in May 2012. Namibia improved her ranking enormously from rank 152 out of 155 countries in 2010 to rank 89 in 2012. However trailing behind Botswana that improved by 66 ranks from 134 to 68, and behind South

Africa – rank 23. And, Namibia ranks below countries such as Madagascar, Niger and Tanzania. Rail infrastructure in Namibia is not up to scratch, a finding that does not come as a surprise. The country performs above her overall ranking regarding Customs Services (54), tracking and tracing (67) and Infrastructure (69), but under-performs in respect of timeliness (144 out of 155 countries). However, progress has been made in some areas, such as the number of forms required for clearing cargo that declined from 5 in 2010 to now only 2. However, at the same time, the days needed for clearance increased from 1 to 3, indicating that the efficiency gains resulting from fewer forms have not resulted in efficiency gains concerning the number of days. Since we aspire to become the logistics hub for southern Africa we could learn from Singapore. It requires only one clearance form and not even a day to clear shipments. Furthermore, costs have been slashed substantially from about USD 2,000 to USD3,000 to below USD800 (exports) and between USD900 and USD1,150 for imports. In order to improve our performance, public and private sector need to work hand-in-hand and create a platform, where challenges can be discussed and resolved on a regular basis. While the improvement bodes well for Namibia's ambition to become the logistics hub in Southern Africa (see NDP4), it also indicates that a lot needs to be done to compete with neighbouring countries such as South Africa and Botswana, let alone Mauritius. Furthermore, the Global Enabling Trade Index (GETR) published by the World Economic Forum paints a slightly different picture, although it draws in part on LPI data.

According to the GETR the number of documents required for exports (9) and imports (7) are much higher than stated in the LPI. Most likely, the LPI refers only to customs documents, while the GETR includes all documents such as import/export licences, bank documentation, port filing documents etc. The differences in the cost of importing and exporting (about USD1,900 according to the GETR), however, is puzzling since it includes the same cost items. Likewise, the number of days it takes to import or export a container is far greater (24 to 29) than in the LPI. Contrary to the improvement in the LPI ranking, Namibia dropped in the GETR ranking from place 70 to 75 out of 132 countries with a slightly lower score – 3.9 compared to 4.0 in 2010.

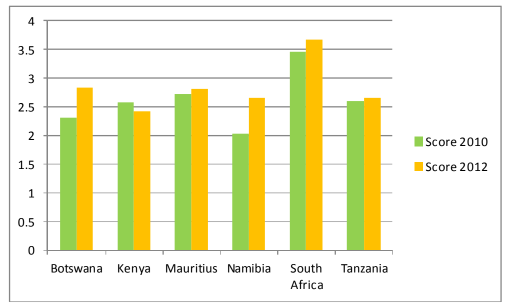
While it can be helpful to benchmark the country against other countries using international indices, caution has to be applied before drawing policy conclusions. The deviation of data in these two surveys suggests that there is need for a proper survey of import and export procedures. This survey should serve as a baseline for monitoring and evaluating our progress towards increased efficiency, which is a prerequisite for achieving our ambitions outlined in NDP4 and Vision 2030.

Namibia's LPI ranking compared to selected African countries



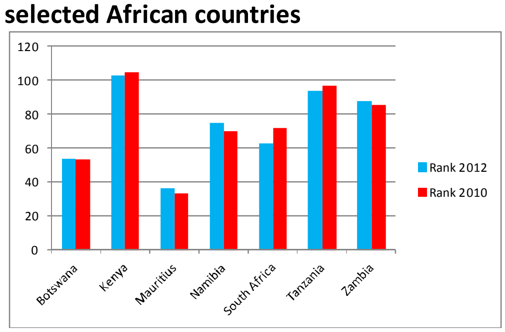
Source: World Bank 2012, Logistics Performance Index

Namibia's LPI score compared to selected African countries

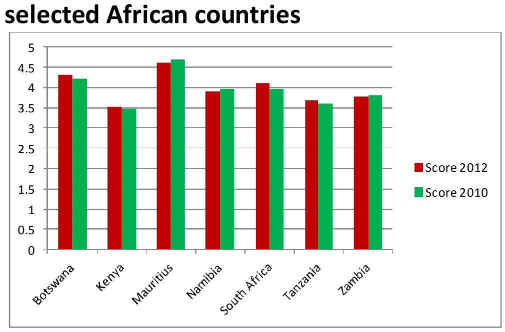


Source: World Bank 2012, Logistics Performance Index

Namibia's GETR ranking compared to selected African countries



Namibia's GETR score compared to selected African countries



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