



## Economy Watch Namibia – November 2012

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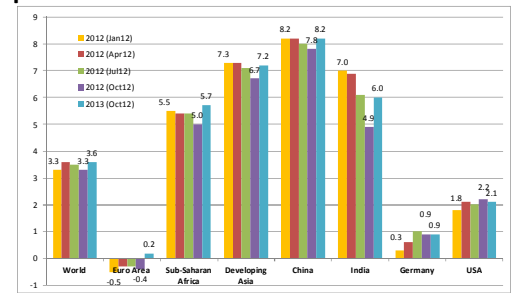
### Global and domestic economic prospects

The International Monetary Fund revised its global economic growth forecast for 2012 downward to 3.3 per cent in October. The downward adjustment includes all regions and most of the major economies with India standing out on the one extreme, since the growth forecast was slashed from 7.0 per cent in January to 4.9 per cent in October, while Germany and the USA are expected to perform better than previously anticipated. Growth of the German economy is now expected to expand by 0.9 per cent instead of 0.3 per cent and the USA economy by 2.2 per cent instead of 1.8 per cent. Whether this will materialise remains to be seen, since quarterly growth rates do not really back this optimism. For instance, the German economy grew by 0.5, 0.3 and 0.2 per cent over the first three quarters respectively. Despite slightly positive growth rates during the second and third quarter of the two strongest European economies – Germany and France – the eurozone entered into a recession contracting by 0.2 per cent and 0.1 per cent in the second and third quarter respectively mainly driven by declines in economic activities in Mediterranean countries such as Portugal, Spain, Italy and Greece. Prospects for 2013 are slightly brighter – at least for the time being - than for 2012. However, uncertainties remain:

Lawmakers in the USA are trying to **avoid the fiscal cliff** in January 2013, since tax rebates and cuts are being phased out, while at the same higher taxes in particular for the wealthier population and spending cuts are being introduced. If no compromise is found until the end of this year, the fiscal cliff is expected to have a dampening impact on economic growth in the world's largest economy with subsequent spill-over to manufacturers elsewhere, in particular in China, and raw material producers, such as Namibia.

When the financial and economic crisis emerged a few years ago, governments and central banks of developed countries tried to coordinate their policy responses. These times are gone and it seems that most countries are trying to gain at the expense of others, such as through quantitative easing that distorts exchange rates and thereby competitiveness. Southern Africa has not even made an attempt to address the global and regional challenges at a regional level, despite the various regional integration initiatives. In keeping with the global outlook, prospects for the region look dimmer not only owing to global uncertainties, but also because of **home-grown factors**, in particular **industrial action** that has resulted in a decline of industrial output, exports (and hence foreign exchange earnings) and investor confidence.

### IMF growth forecasts for 2012 in various publications



Source: IMF, World Economic Outlook, various publications.

## Mineral prices

Price for un-processed minerals

After some strong price increases at the beginning of September **copper and zinc prices** have almost fallen **back to price levels at the beginning of the year**. Zinc has been trading around USD1,900 and copper around USD7,600 per metric ton in the third week of November, up by 4.8 per cent and 1.6 per cent respectively compared to January 2012.

**Gold has continued its gains** since the beginning of the year. It was trading 12 per cent higher at USD 1,713.50 per ounce in the middle of November 2012, but has not tested the threshold of USD1,900 per ounce as during the height of the European Sovereign Debt crisis in the third quarter 2011. Demand for gold was down by some 11 per cent during the third quarter 2012 compared to the same quarter 2011, mainly owing to exceptional strong demand last year. While gold demand increased in India in particular from the jewellery industry and investors, the opposite happened in China owing to uncertainties concerning the future of the Chinese economy. Markets anticipate further increases in the bullion price during next year that could exceed the USD1,900 per ounce mark in twelve-month's time owing to continuous economic uncertainties.

The **uranium price continued its downward trend** falling to USD40.75 per pound at the beginning of November before it recovered slightly to USD41,25 per pound. The price has declined by 21 per cent since January 2012 resulting in Areva's decision to put the Trekkopje mine on care and maintenance, although the mine just forwarded its first shipment of uranium to France. Reportedly, uranium prices have to increase to about USD70 per pound to make uranium mining and the development of new mines viable. Current price levels make any substantial investment in the near future in this industry unlikely and consequently diminish hopes of increasing government revenue from royalties and taxes any time soon.

## Oil and fuel prices

NAD – Namibia dollar  
USD – United States of America dollar  
Barrel of oil – 158 litres

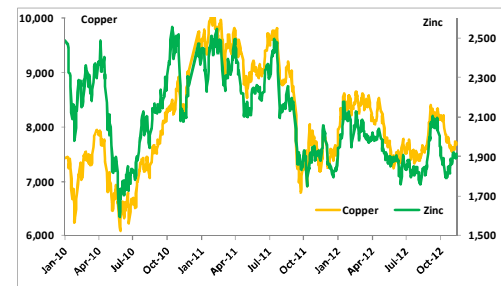
A number of **factors have influenced oil prices** over the past couple of weeks. On the one hand, the recession that holds grip of Europe once again, uncertainties concerning the politicians' ability and willingness to avoid the fiscal cliff in the US, a slowdown of the Chinese economy and increasing stockpiles in the USA have exerted downward pressure on oil prices. On the other hand, the continuing unrest in the Near and Middle East further intensified by the flare up of violence between Israel and Gaza – and the possible role of Iran, which is the fifth largest oil producer, in this violence – have resulted in upward pressure on prices. Still, **oil prices are some 1.3 per cent lower** compared to the beginning of 2012. However, **domestic fuel prices are climbing** owing to the weakness of the Namibia dollar vis-à-vis the USD. After the fourth consecutive increase in November, petrol '93 prices are up by 8.7 per cent and diesel prices by 11.7 per cent from January 2012.

## Crop prices

ZAR – South

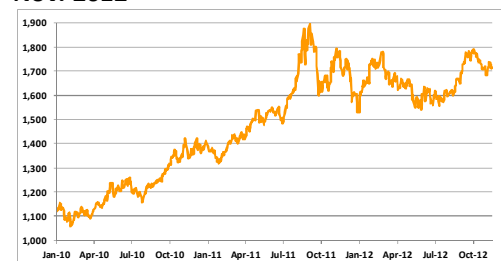
Prices for wheat and maize continued their divergent trend. **Wheat prices have increased steadily** since the beginning of 2012 reaching 3,700 South African Rand (ZAR) per metric

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



Source: London Metal Exchange, daily data

## Gold price in USD per ounce, Jan. 2010 to Nov. 2012



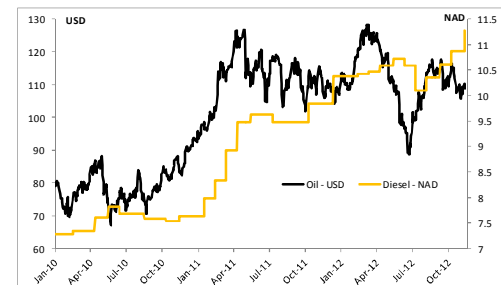
Source: World Gold Council, daily data

## Uranium price in USD per pound, January 2011 to November 2012



Source: The Ux Consulting Company, weekly data

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

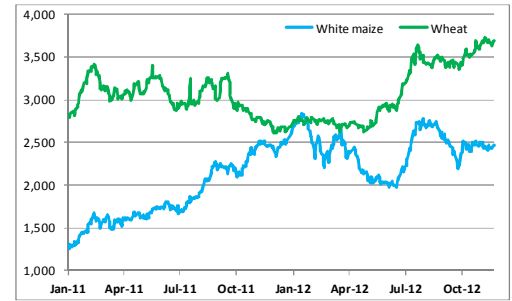


Source: Oil price - Energy Information Administration, daily data. Ministry of Mines and Energy, fuel prices.

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

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

tonne towards the end of November – 34 per cent higher than at the beginning. **Maize prices** on the other hand **showed a very different performance** during the first and second half. While they dropped by almost 20 per cent during the first six months, they have increased since then by some 10 per cent mainly because of the devastating drought in the USA. However, prices at ZAR2,500 per ton are still about 9 per cent lower than at the beginning of January. Since prices have eased since August, consumers are going to benefit from lower maize meal prices from the end of November.



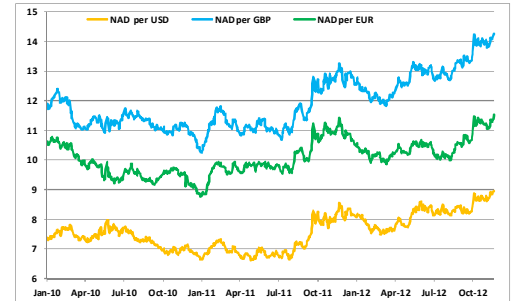
Source: SAFEX, daily data

### Exchange rates

Price in Namibia dollar for one unit of a foreign currency

The **local currency has depreciated** by 11, 14 and 10 per cent against the USD, GBP and Euro respectively since the beginning of the year. The South African Rand (ZAR), to which the NAD is pegged one-to-one, has weakened in particular since September 2012 and owing mainly to home grown factors, while in the past the global economic climate played a major role in the strength or weakness of the ZAR. The violent wild cat strikes at several South African mines affected the export of mineral products and thereby foreign exchange earnings. In addition, foreign financial investors have become nervous about the spreading labour unrest, and in particular the violent nature of the strikes, and have withdrawn funds from South Africa. These two factors combined have resulted in a declining demand for the ZAR and consequently is depreciation. On the other hand, the trade deficit is widening and increasing the demand for foreign currency in order to cover imports. This again puts pressure on the South African currency. Owing to the currency peg, the NAD takes the same route as the ZAR. The country has already felt the impact through increasing fuel prices, although international oil prices have actually dropped by four per cent since beginning of September 2012.

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



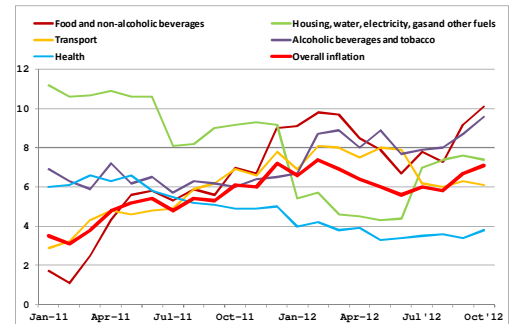
Source: South African Reserve Bank, daily data

### 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).

Not unexpectedly, **inflationary pressure has picked up** since the middle of the year reaching 7.1 per cent in October. The **main driver** for the increase was the category **‘food and non-alcoholic beverages’** with double-digit price increases (10.1 per cent). Since this is the category with the highest weight in the consumption basket (29.6 per cent) any price movement in this category has a strong bearing on the overall inflation rate. Despite continuous price hikes for petrol and diesel since July 2012 (prices for petrol 93 rose by 11.2 per cent and for diesel by 11.7 per cent), inflationary pressure in the category ‘transport’ eased slightly from 6.3 per cent in September to 6.1 per cent in October since prices for new vehicles increased only moderately (2.8 per cent). While costs of new vehicles account for 10 per cent of the total consumption basket, petrol and diesel carry a weight of 2 per cent only, implying that price fluctuation of the latter items do not have a strong direct impact on overall price increases. However, since in particular diesel is an important input for many industries, its price has an impact on production costs and the final price of the product. Prices in the category of ‘Housing, water and electricity’ have increased above average although easing slightly com-

### Inflation rates for selected categories, Jan. 2011 to October 2012



Source: Namibia Statistics Agency

pared to the previous month from 7.6 per cent to 7.4 per cent. This category carries the second highest weight in the consumption basket of 20.6 per cent.

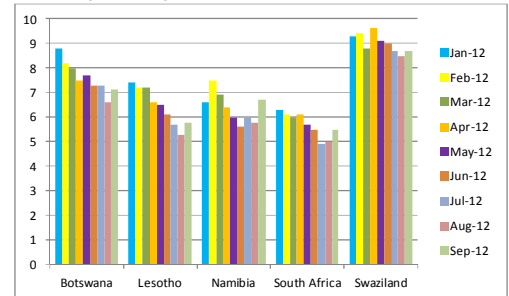
The **Namibian inflation rate is following the trend in other SACU countries**. Price pressure in the region eased during the first half of this year, but is on the increase in the second half owing to food and fuel price increases. The weakening of the ZAR in recent weeks will result in further inflationary pressure from imports from outside the Common Monetary Area, while wage and salary increases in South Africa and Namibia will eventually trickle down to shelf prices. We expect an average annual inflation rate for 2012 of about 6.5 per cent, up from 5.0 per cent in 2011.

### Namibia's performance in international comparison

**Namibia is ranked fifth in the SADC region** behind Mauritius, South Africa, Botswana and Seychelles in the World Bank's latest Doing Business report. The country dropped nine places compared to last year's ranking. With the exception of Mauritius that climbed four ranks and Seychelles that improved 29 places and overtook Namibia, other SADC countries lost ground. Of concern is that Namibia slipped in almost all indicators, except 'trade across borders' and 'getting electricity'. In most cases it is not a matter of increasing bureaucracy or other deterioration. Namibia has often not kept pace with improvements in the business environment in other countries or has simply not improved at all. For instance, the number of procedures required for **starting a business** has been cut from eight to seven, while the number of days it takes remained the same. Still, the country slipped eight places, because other countries performed much better. Since access to finance ranks among the main concerns in Namibia, it is disappointing to note that the country dropped 16 places to rank 40 in the indicator 'Getting credit'. This is the worst performance of an indicator after 'registration of property'. Regarding the latter indicator, Namibia dropped almost to the bottom of all countries (rank 169) from place 145 a year earlier.

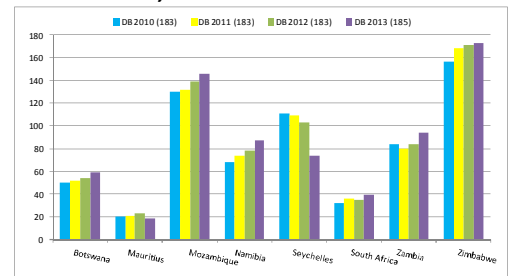
The country improved her ranking concerning **trade across borders** from place 142 to 140, by cutting the time it takes to import and export goods. However, the costs and number of documents required remained unchanged. The findings of the Doing Business report are in stark contrast to the findings of the Logistics Performance Index, also published by the World Bank. The LPI refers to two documents and three days required for imports and exports. These discrepancies warrant an own study by the Ministry of Trade and Industry and the Ministry of Finance to establish robust baseline data in order to monitor the impacts of any reform efforts. Despite these qualifications, it is obvious that the country needs to embark on serious reforms of the business environment if she wants to improve her international performance, attract more investment and become the logistics hub of the region as envisaged in NDP4.

### Annual inflation rates for SACU countries, January to September 2012



Source: SACU Secretariat

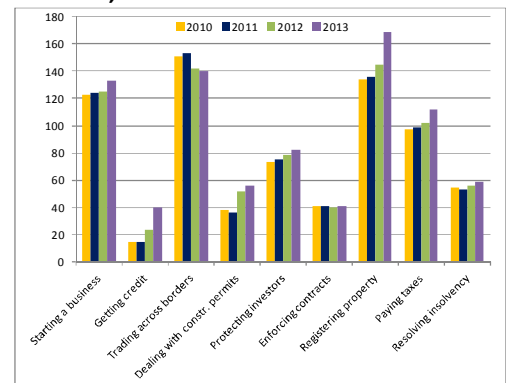
### Namibia's Doing Business ranking compared to selected African countries, 2010 to 2013



Source: World Bank, Doing Business Report 2013

Note: The number in brackets indicates the number of countries included in the survey

### Namibia's ranking in the Doing Business indicators, 2010 to 2013



Source: World Bank, Doing Business Report 2013