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Economy Watch Namibia – March 2013

- **Economic growth in Namibia possibly stronger than expected (Page 1)**
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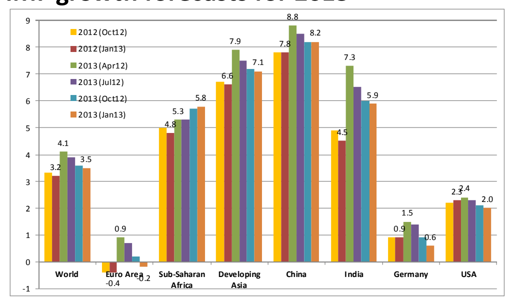
Global and domestic economic prospects

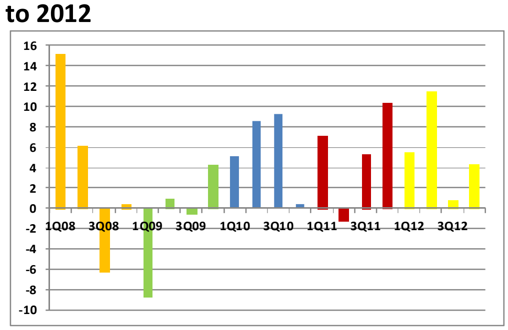
The outlook for the global economic recovery remains cloudy. The quarterly revisions of global economic growth by the International Monetary Fund (IMF) continue the trend witnessed in the past, namely downward adjustments with a few exceptions. The IMF estimated global economic growth of 3.2 percent for 2012 in its January 2013 update, which is slightly lower than growth rates published throughout 2012. Likewise, the outlook for 2013 has been continuously reduced from 4.1 percent to 3.5 percent now. The Eurozone as a whole is expected to continue in recession (-0.2 percent) in 2013 after its economy contracted by 0.4 percent during 2012. However, the largest economy in the Eurozone, Germany, could well avoid a recession and record economic growth of 0.6 percent, which is lower than the 0.9 percent for 2012. The USA economy is expected to grow by 2.0 percent which is also below the growth rate for 2012 of 2.3 percent. Developing Asia remains the main driver for global growth with China on top. The Chinese economy is expected to grow more strongly in 2013 (8.2 percent) than in 2012 (7.8 percent) although not at the level previously anticipated. India's expected growth rate was cut back from 7.3 percent to 5.9 percent. Sub-Saharan Africa remains the only region that is expected to grow at a higher rate during 2013 than initially thought. The forecast was updated from 5.2 percent to 5.8 percent.

IMF growth forecasts for 2013



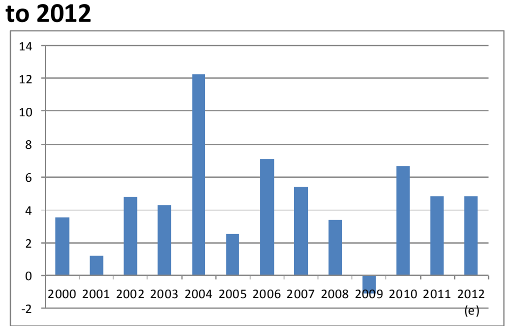
Source: IMF, World Economic Outlook, various publications.

Quarterly GDP growth for Namibia, 2008 to 2012



Source: Namibia Statistics Agency

Quarterly GDP growth for Namibia, 2000 to 2012



Source: Namibia Statistics Agency. 2012: Authors' estimate.

Namibia's economy contracted in the wake of the global economic meltdown in 2009 (-1.1 percent), but rebounded strongly in 2010 (+6.6 percent). Growth slowed down in 2011 to 4.8 percent mainly because of a drop in output from the diamond and uranium sectors caused by adverse weather conditions and industrial action. The release of the quarterly GDP data for the fourth quarter of 2012 indicates a strong performance by the mining sector throughout the year. In particular, the increase in output from the diamond mining sector – diamond production increased from 1.3 million carats in 2011 to over 1.6 million carats – indicates that growth in 2012 will be higher than previously anticipated. Agriculture also showed strong growth in the fourth quarter after its output contracted during the second and third quarter due to a large extent to the grape harvest. Although the preliminary national accounts have not yet been released, the quarterly data indicates that economic growth might exceed expectations and could be in the vicinity of last year's growth rate of 4.8 percent.

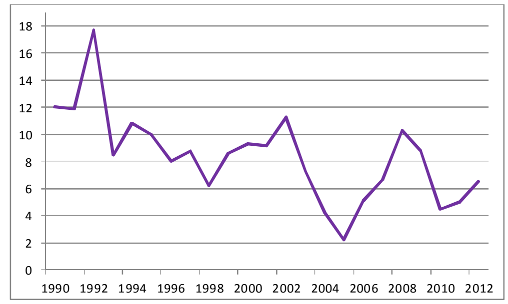
Inflation

For much of the past two decades Namibia managed to keep annual inflation rates at single-digit levels and over the

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).

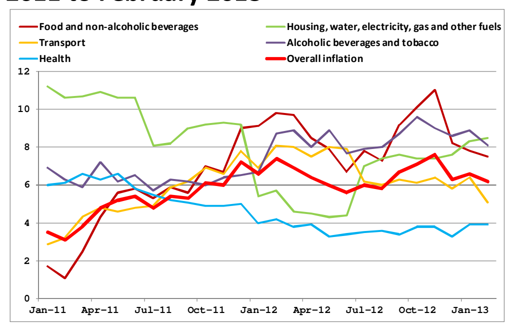
past decade mostly within the range of 3 percent to 6 percent targeted by the South African Reserve Bank's monetary policy. However, prices have been picking up again since the beginning of 2011 resulting in annual inflation rates of 5.0 percent and 6.5 percent for 2011 and 2012 respectively. Rising food prices were a major contributor to the increasing price pressure. Since food and non-alcoholic beverages account for 30 percent of the consumption basket – meaning the average Namibian consumer spends 30 percent of total expenditure on these items – price developments in this category influence the overall inflation rate greatly. Prices for housing, water and electricity (a weight of 21 percent in the consumption basket) and for transport (weight of 16 percent) were also significant drivers of inflation. Food and housing, which together account for half of the average household's expenditure, were the main drivers of inflation during the first two months of 2013, while transport inflation dropped to below the average inflation rate. This was caused by lower prices for vehicles (weight of 10 percent), while increasing fuel prices (weight of 2.2 percent) exerted upward pressure. Prices for alcoholic beverages (weight of 3.3 percent) grew by over 8 percent since the beginning of 2013 and thereby continued the trend that started in February 2012. The current depreciation of the Namibia dollar against major currencies will increase price pressure for goods and services originating from outside the Common Monetary Area, while increased government spending and tax cuts for consumers and most companies are likely to contribute to further price increases. Therefore, the decline in the inflation rate in February to 6.2 percent from 6.6 percent in January 2013 was most likely temporary and does not herald a slowdown in price increases. However, this is not expected to result in a change of monetary policy in the near future.

Annual inflation rates for Namibia, 1990 to 2012



Source: Namibia Statistics Agency

Inflation rates for selected categories, Jan. 2011 to February 2013



Source: Namibia Statistics Agency

Mineral prices

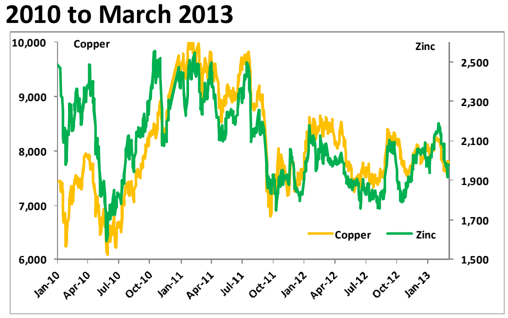
Price for unprocessed minerals

After prices fell by more than 20 percent for both **copper** and **zinc** during 2011, they recovered during 2012 by 4.8 percent and 11.3 percent respectively. Since the beginning of 2013 prices have been fluctuating, but were 4.0 percent and 1.9 percent lower than at the end of 2012. Zinc was traded at USD1,953 per tonne and copper at USD7,764 per tonne in the middle of March. The decline is in part due to the anticipated slowing down of the housing boom in China and consequently a weaker demand for these minerals.

The **uranium** price took a sharp dip after the Fukushima accident in 2011 and has not yet recovered. It ended 2012 15.9 percent lower and has lost another 2.9 percent since the beginning of 2013. It is now hovering around USD42.25 per pound. While the development of Namibia's fourth uranium mine, the Husab mine, is ongoing and the first production is expected for 2015, the Trekkopje mine is not expected to re-open soon owing to the low uranium price. Although uranium overtook diamonds as Namibia's main export item in 2010 it is back to second position because of the price decline.

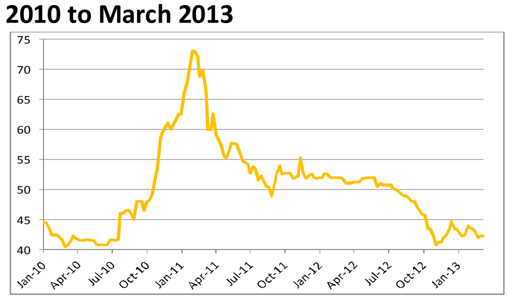
Gold gained some 8.3 percent during 2012 closing the year

Copper and zinc prices in USD per ton, Jan. 2010 to March 2013



Source: London Metal Exchange, daily data

Uranium price in USD per pound, January 2010 to March 2013



at USD1,657.50 per ounce, but lost ground since the beginning of 2013. The price dropped to USD1,581.75 per ounce at the beginning of March representing a decline by 4.6 percent. The decline can, in part, be attributed to expectations that the Federal Reserve Bank in the USA will scale down on its monetary easing, because economic data has shown signs of recovery. Subsequently, share prices rose at the stock exchanges. The demand for gold dropped further as assets in gold-backed products declined. However, the acceleration in economic recovery could lead to growing demand for gold by the jewellery industry that accounts for almost half of total demand.

Source: The Ux Consulting Company, weekly data

Gold price in USD per ounce, Jan. 2010 to March 2013

Source: World Gold Council, daily data

Oil and fuel prices

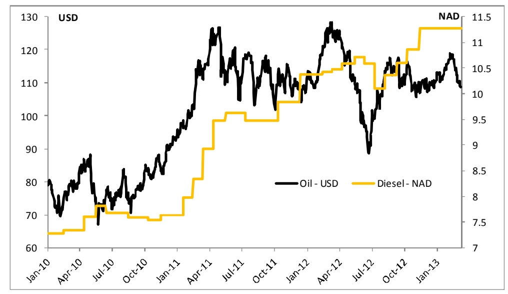
NAD – Namibia dollar

USD – United States of America dollar

Barrel of oil – 158 litres

Oil prices rose slightly (2.3 percent) during 2012, but have lost almost all their gains since the beginning of 2013 (-1.9 percent). Oil was trading below USD110 per barrel in March, down from more than USD118 per barrel during February 2013. However, the consumer in Namibia has faced a quite different situation: Petrol prices increased by 11.3 percent during 2012 and a further 5.7 per cent since January 2013 on the back of the domestic currency's weakness. Diesel prices grew at a slightly lower pace of 8.7 percent in 2012 and 2.0 percent during the first months of 2013. Oil prices are not only influenced by demand but also by geopolitical factors affecting the supply side. While South Sudan has resumed production, political developments in North Africa and the Middle East in particular will have an impact on future oil prices.

Oil prices in USD per barrel and diesel prices in NAD per litre, Jan. 2010 to March 2013



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

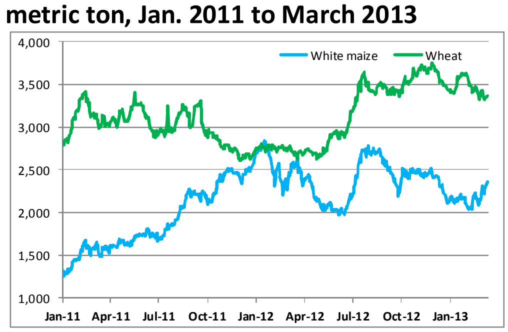
Crop prices

ZAR – South African rand

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

Prices for **wheat** and **maize** have shown opposite trends over the past years and these continued into 2013. The prices for white maize declined by 18 percent during 2012, but recovered some ground so far this year (up by 8.5 percent) to reach NAD2,312 per metric tonne in the middle of March. Wheat prices, on the other hand, increased by 27 percent during 2012, but have dropped slightly since January 2013 (-1.0 percent) to NAD3,391 per metric tonne. Since the planting season in the main crop producing countries has not yet started, and hence the area under production is not known, forecasts for potential harvests and prices are not available at this point.

Wheat and white maize prices in ZAR per metric ton, Jan. 2011 to March 2013



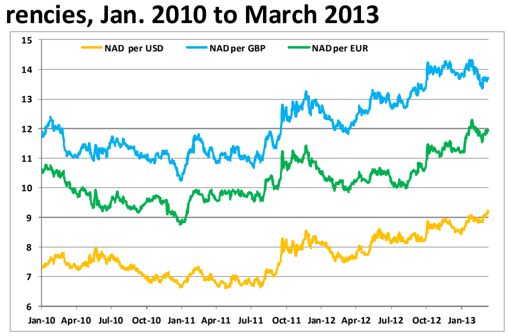
Source: SAFEX, daily data

Exchange rates

Price in Namibia dollar for one unit of a foreign currency

The Namibia dollar depreciated during 2012 against major currencies such as the USD (-4.3 percent), British Pound (GBP - -9.4 percent) and the Euro (-6.5 percent) after a long period of relative strength. The Namibia dollar is currently trading at NAD9.14 against the USD, NAD13.67 (GBP) and NAD11.94 (Euro). The depreciation was the result of investor sentiments turning against emerging markets such as South Africa and events in South Africa, in particular labour unrest that dented investor confidence. The currency has lost further value at an accelerated pace since the beginning of 2013 against the USD (-7.8 percent) and the Euro (-6.5 percent). The recent depreciation is caused by continuous labour unrest, a widening current account deficit in South Africa and downgrading by international rating agencies. The NAD recently gained marginally against the GBP (+0.3 percent) though, because of Britain's weaker economic per-

Exchange rates of the NAD for major currencies, Jan. 2010 to March 2013



Source: South African Reserve Bank, daily data formance.

The Medium-Term Expenditure Framework for 2013/14 to 2015/16

A detailed budget analysis will be available on IPPR's website in due course – www.ippr.org.na

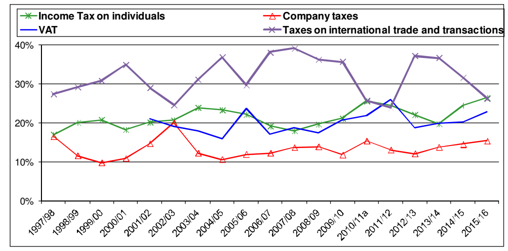
The Minister of Finance Saara Kuugongelwa-Amadhila tabled her tenth national budget in the National Assembly on 26 February 2013. She is the longest serving Minister of Finance in the young history of the country.

Revenue is expected to increase by 8.2 percent in the Financial Year 2013/14 compared to 2012/13 or by some NAD3 billion (bn) to NAD40.1 bn. Over the whole Medium-term Expenditure Framework (MTEF) period revenue is expected to grow by 23 percent to NAD45.6 bn, which is rather modest compared to revenue growth during previous MTEF periods. This slow growth is attributed to below-average increases in transfers from the SACU revenue pool in 2013/14, which remains Namibia's main revenue source (37 percent of total revenue) and actual declines during the following two financial years. Value Added Tax contributes on average 21.0 percent to total revenue, followed by income tax on individuals (20.6 percent) and on companies (12.6 percent). Individual income earners and companies with the exception of diamond-mining companies will benefit from cuts in tax rates and adjustments to the tax brackets.

Overall **expenditure** is expected to rise by 19 percent in 2013/14 to NAD47.6 bn compared to NAD39.9 bn a year earlier. The growth of expenditure is expected to slow down considerably over the following two years amounting to 1.3 and 4.7 percent respectively. This implies a reduction of expenditure in real terms since the inflation rate is likely to hover around five to six percent. The Ministry of Education received the largest share (on average 24.1 percent) followed by the Ministry of Finance (12.4 percent owing to debt servicing) and the Ministry of Health (10.6 percent). Recipients of the old age grant will benefit from an additional NAD50 that will increase the monthly grant to ND600.

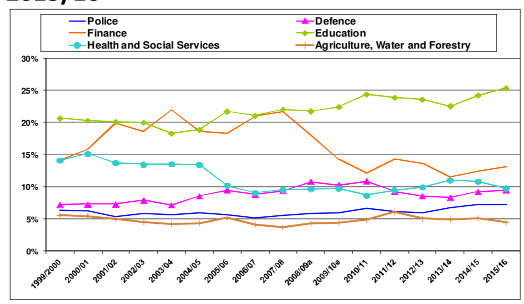
Since revenue growth is not keeping pace with rising expenditure, the **deficit** is expected to increase to 6.4 percent of GDP in 2013/14 (or NAD7.4 billion) from 2.8 per cent in 2012/13. The following years could see a reduction in the deficit to 4.1 and 3.4 percent respectively. Total debt stock is expected to grow to NAD32.4 bn in 2013/14 and NAD44.5 bn at the end of the MTEF period. Domestic debt is increasing from 67 percent of total debt (2013/14) to 72 percent in 2015/16. Owing to higher interest rates on the domestic market compared to foreign markets interest payments to domestic bond holders are expected to grow from 82 percent of total interest payment to 86 percent. Despite the increase in the deficit and debt stocks, they remain well within international benchmarks. What counts, however, at the end of the day is not the budget deficit or the level of debt stock, but the quality of the spending and its return to the economy and its citizens.

Main revenue sources in percent of total revenue, 1997/98 to 2015/16



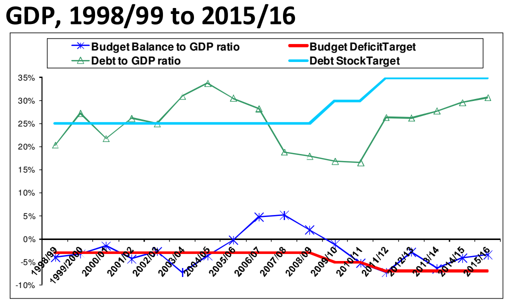
Source: Ministry of Finance, various years.

Budgetary allocation to selected votes in percent of total expenditure, 1997/98 to 2015/16



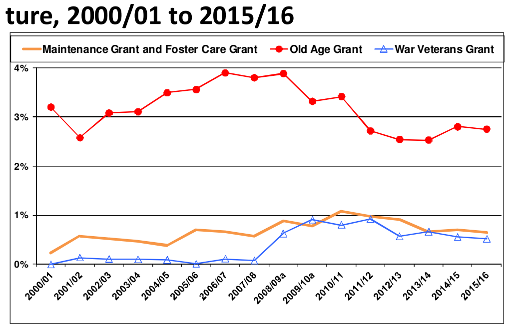
Source: Ministry of Finance, various years.

Budget deficit and debt stock in percent of GDP, 1998/99 to 2015/16



Source: Ministry of Finance, various years.

Social grants in percent of total expenditure, 2000/01 to 2015/16



Source: Ministry of Finance, various years.

Hanns Seidel Foundation

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