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 – May 2013

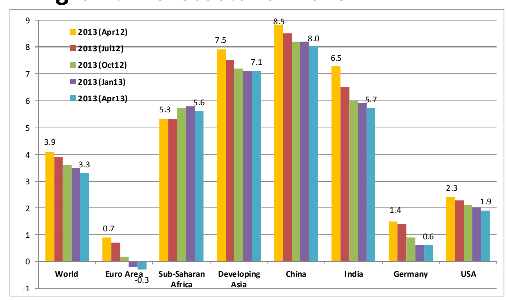
- **IMF reduces economic growth projections (page 1)**
- **Oil price drops (page 2)**
- **Mineral prices on a downward trend (page 3)**
- **Namibia dollar depreciated strongly against major currencies (page 4)**

Global and domestic economic prospects

A speedy recovery of the global economy is still not in sight. The concerns remain the same, namely: continuous requests for bailout packages from over-indebted Eurozone countries; high unemployment rates in a number of European countries, and also the USA, that dampen consumer demand; the right balance between austerity measures in order to reduce budget deficits and stimulus packages in order to revive struggling economies; and global trade imbalances. Consequently, the International Monetary Fund reduced its global economic growth forecasts for 2013 for a fifth consecutive time since the estimates in April 2012. Global Gross Domestic Product is forecast to rise by 3.3 per cent – down from 3.5 per cent in its World Economic Outlook in January 2013 and even further away from the 4.1 per cent anticipated about twelve months ago. Growth prospects have been adjusted downwards for all major economic groupings and countries. The Chinese and Indian economies are expected to expand by 8.0 and 5.7 per cent, down by 0.2 percentage points compared to January 2013, while the eurozone is entering an economic recession with a contraction of 0.3 per cent. Even sub-Saharan Africa is not spared the impacts resulting in a slightly lower growth in output of 5.6 per cent.

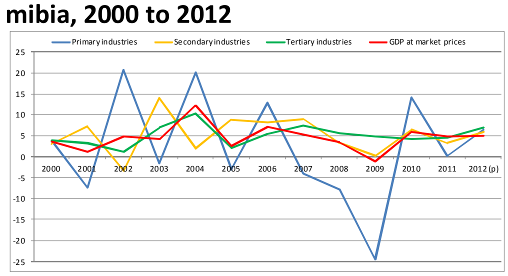
Compared with the rest of the world, Namibia's economy remained relatively resilient. Preliminary figures for 2012 point at a 5 per cent increase of GDP, mainly owing to a strong performance of the tertiary sector (up by 6.9 per cent). The primary sector grew by 6.5 per cent driven by the mining industries and in particular non- diamond mining companies (up by 18.8 per cent). The manufacturing sector expanded by 5.9 per cent. A similar performance is expected for 2013 supported by some major projects such as the development of the Husab uranium mine – a NAD20 billion project – and the construction of the Neckartal Dam, among others. However, these growth rates are not sufficient to achieve NDP4 targets. Furthermore, more government interventions are needed to address the main challenges of poverty reduction and an increase in income equality that are not automatically achieved through economic growth.

IMF growth forecasts for 2013



Source: IMF, World Economic Outlook, various publications.

GDP growth by main industries for Namibia, 2000 to 2012



Source: Namibia Statistics Agency. 2012: Preliminary figure

Crop prices

ZAR – South African rand

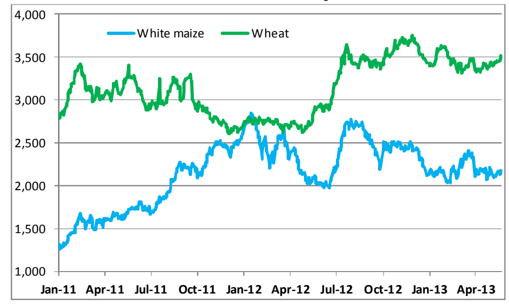
White maize and wheat are major

White maize and **wheat** prices have increased slightly by 2.5 per cent and 2.6 per cent respectively since the beginning of 2013 and hence remained fairly stable this year compared to last year. 2012 saw wheat prices increasing by 27 per cent, while maize prices dropped by 18 per cent. White maize was traded for NAD2,183 per ton on 23 May 2013, crops produced and consumed in Namibia, but prices are influenced by world market prices.

while wheat cost NAD3,515 per ton.

According to forecasts by the US Department for Agriculture global wheat production is expected to rise by three per cent during the 2013/14 season to reach a record 701 million tons, despite a decline by seven per cent in the USA. The increased production could result in lower wheat prices in particular after the main harvesting season in the second half of 2013. Maize production and prices are expected to follow similar trends. Global maize production is projected to reach new levels as well with 966 million tons compared to an estimated global consumption of 937 million tons. The rise in consumption is caused by higher demand for feed and biofuels. Since supply is exceeding demand, prices are projected to fall. However, these forecasts have to be taken with some caution, since yields are susceptible to climatic conditions. A year ago, forecasts for maize production in particular were very optimistic since US farmers, who are the largest producers of maize, planted the largest areas in decades. However, a severe drought in the USA resulted in a substantial revision of production figures and rising prices. The Namibian consumer is somewhat protected against strong price fluctuations since processors and producers agree on prices that are based on five-year moving averages, thereby eliminating temporary price hikes as well as declines.

Wheat and white maize prices in NAD per metric ton, Jan. 2011 to May 2013



Source: SAFEX, daily data

Oil and fuel prices

NAD – Namibia dollar

USD – United States of America dollar

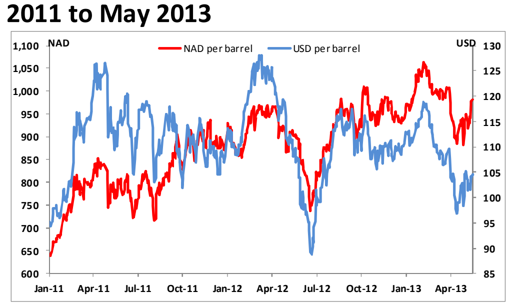
Barrel of oil – 158 litres

Since Namibia is not (yet) an oil producing country, it is good news that oil prices have fallen this year by 5.6 per cent after increasing by two per cent during 2012. Prices dropped to below USD100 per barrel during April 2013 for the first time since July 2012, but recovered to around USD105 per barrel during the first half of May. However, the Namibian consumer has not fully benefited from the lower international prices because of the depreciation of the domestic currency against the USD. Prices in NAD per barrel increased by 4.5 per cent since January 2013, while they increased by 7 per cent during 2012. Despite a reduction in fuel prices in May by 30 cents per litre for petrol and 20 cents per litre for diesel, petrol prices are 3.8 per cent and diesel prices 0.2 per cent higher than at the end of last year.

Although stockpiles of crude oil in the US have dropped, supplies are reportedly sufficient to meet current demand. However, demand for fuel is expected to rise in the Northern hemisphere because the main holiday and hence travelling season is approaching. Moreover, concerns about the security situation in the Middle East, in particular Syria, and uncertainties about the outcome of presidential elections in Iran scheduled for June 2013 could push up prices again.

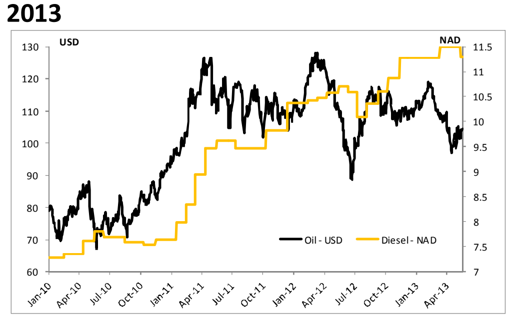
A probe is currently ongoing into allegations of oil price fixing for crude, refined oil products and ethanol involving major oil companies and trading houses. It is alleged that prices of selected transactions have been manipulated. These prices are used to determine benchmark prices on which refineries base their cost calculations. Any manipulation of these prices will impact on the price the final consumer has to pay for oil products, such as petrol and kerosene.

Oil prices in USD and NAD per barrel, Jan. 2011 to May 2013



Source: Oil price in USD - Energy Information Administration, daily data. Oil prices in NAD: Calculated by the authors based on SARB's daily exchange rates.

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



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

Mineral prices

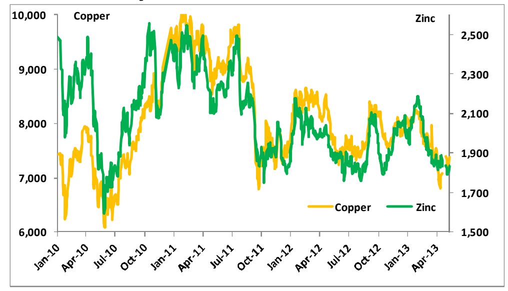
Price for unprocessed minerals

Lower than expected economic growth in most economies, and in particular in China and India, has led to weaker demands for minerals and consequently to lower prices. **Zinc** and **copper** prices have declined during 2013 by 11 per cent and 8 per cent respectively eliminating gains of 11 per cent and 4 per cent respectively during 2012. Zinc was trading at USD1,820.00 per metric ton and copper at USD7,285.00 per metric ton on 23 May 2013, down from USD2,086.50 and USD8,084.00 respectively at the beginning of January 2013.

Uranium prices have remained under pressure for more than two years. They have dropped from a high of USD73.00 per pound in January 2011 to USD40.50 per pound on 20 May 2013 losing some 7.0 per cent of their value since the beginning of 2013 after declining by 16 per cent in 2012. The low prices have resulted in the temporary halt of production at Areva's Trekkopje mine in 2012. On the other hand, the development of one of the largest open-pit mines, the Husab mine, commenced on 18 April 2013 with the groundbreaking ceremony. Production is expected to commence in 2015.

Gold is usually regarded as a safe haven in times of uncertainties. However, gold prices have also come under pressure caused by various factors. The first quarter of 2013 witnessed a decline in demand for gold by 13 per cent mainly attributed to the decline in investment demands for gold as indicated by the strong outflow from exchange traded funds. Although central banks purchased 100 tonnes of gold during the quarter, the quantity was below the purchases during 2012. In addition, assumptions that the Federal Reserve Bank in the USA might cut back on its quantitative easing (buying bonds in order to increase the amount of US dollars in circulation) and rising investment in securities also contributed to a decline in the demand for gold. Gold prices have dropped by 17 per cent since the beginning of the year after gaining some 8 per cent in 2012. Gold was traded at USD 1,368.75 per ounce on 17 May 2013, the lowest price since 14 February 2011 (USD1,365.00 per ounce).

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

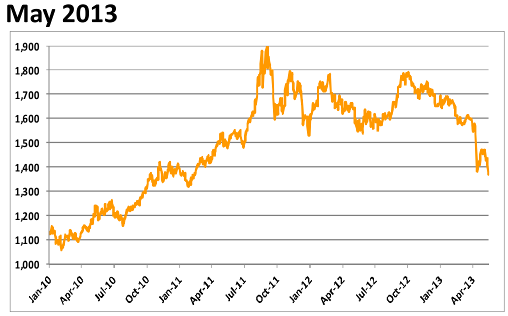


Source: London Metal Exchange, daily data

Uranium price in USD per pound, Jan. 2010 to May 2013

Source: The Ux Company, daily data

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



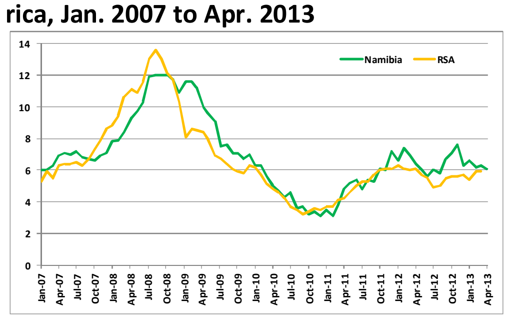
Source: World Gold Council, daily data

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).

Price increases in Namibia slowed down slightly to 6.1 per cent in April from 6.3 per cent in March 2013. Inflation has been driven mainly by the two broad expenditure categories of food and non-alcoholic beverages (6.8 per cent) and housing, water and electricity (7.5 per cent) that account for half of all household expenditure. Inflation for transport expenditure has eased further to 4.3 per cent from 5.1 per cent during the previous two months and 6.4 per cent in January 2013. The costs for purchasing a vehicle – that contribute two thirds to the transport inflation rate – increased marginally by 1.2 per cent compared to April 2012, while the costs for operating vehicles, which includes the costs of petrol and diesel, slowed down from 10.8 per cent in March to 8.1 per cent in April 2013. Namibia maintains the middle position within the Southern African Customs Union member states regarding price increases. With 5.0 per cent in March 2013, Lesotho's inflation rate was the lowest in

Inflation rates for Namibia and South Africa, Jan. 2007 to Apr. 2013

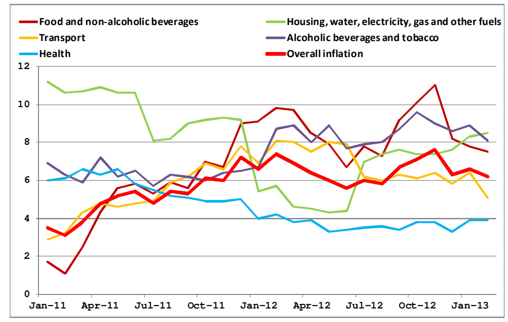


Source: Namibia Statistics Agency, South African Reserve Bank

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

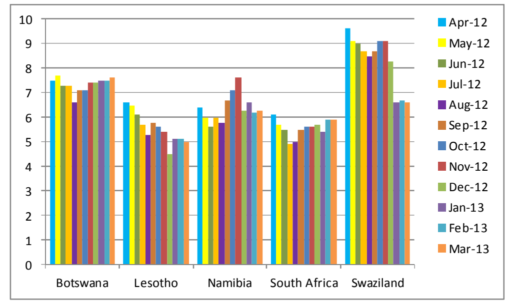
SACU, followed by South Africa with 5.9 per cent. At the other end of the scale were Botswana and Swaziland with 7.6 per cent and 6.6 per cent respectively.

Since the South African inflation rate remained within the range of 3 to 6 per cent targeted by the South African Reserve Bank (SAEB), and in order to stimulate investment SARB left the interest rate unchanged at 5.0 per cent. Namibia’s monetary policy is mainly informed by her foreign exchange reserves needed to maintain the currency peg with the South African rand, while supporting economic growth and keeping the inflation rate within acceptable levels are further considerations. Since foreign exchange reserves exceed the international benchmark of three-month’s import cover, the inflation rate remains within acceptable levels and the local economy needs support in times of global uncertainties, the Bank of Namibia kept the interest rate stable at 5.5 per cent. Interestingly, the US Federal Reserve Bank no longer bases its monetary policy decision on the inflation rate, but is more concerned with the unemployment rate. According to their announcement, the interest rates will be kept at 0.25 per cent until unemployed has dropped drastically.



Source: Namibia Statistics Agency

Inflation rates for SACU countries, Apr. 2012 to Mar. 2013



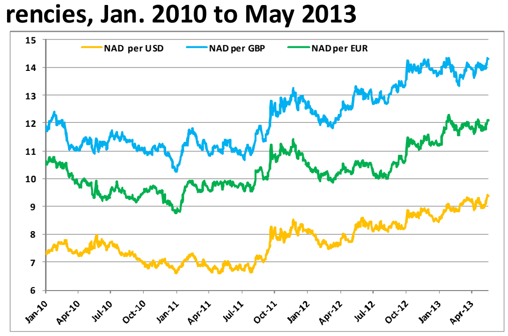
Source: SACU Secretariat

Exchange rates

Price in Namibia dollar for one unit of a foreign currency

The Namibia dollar (NAD) lost further value against the US dollar (USD), British Pound (GBP) and Euro after it depreciated by 4.3 per cent, 9.4 per cent and 6.5 per cent respectively in 2012. The depreciation was in particular strong against the USD (10.7 per cent) and Euro (8.1 per cent), but rather moderate against the GBP (4.2 per cent). The depreciation is largely based on home-made factors in South Africa. Industrial action continues to affect in particular the mining sector negatively, resulting in a fall of output and consequently export and foreign exchange earnings. High wage and salary demands reduce company profits and can possibly result in the substitution of labour by capital (machinery). The threat by Amplat, the world’s largest platinum producer, to shed thousands of jobs is just one example. Strikes, in particular wild-cat strikes, do not only affect the output of the respective company, but also investor sentiments. This can turn into a vicious circle of job losses and a widening social gap. In order to improve the business and investment climate in South Africa the underlying causes of the industrial actions need to be addressed, namely the glaring income disparities. These are not in the interest of the employer or company either, since they can impact on the work ethic and finally the productivity of the work force as well as on their purchasing power and hence the demand for consumer products. Resolving these issues requires serious efforts by all stakeholders, a break with doing business as usual, and a common vision for the future of the country rather than pursuing particular interests.

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



Source: South African Reserve Bank, daily data

Hanns Seidel Foundation

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.