



Economy Watch Namibia – November 2013

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Global and domestic economic prospects

The International Monetary Fund **revised the growth forecast** in its Economic Outlook in October 2013 **downward** – for the current year as well as for 2014. **Global growth** is now expected to reach **2.9 per cent** compared to the 3.6 per cent forecast in October 2012. The **forecast for 2014** was revised downward from 4.0 per cent in April 2013 to **3.6 per cent** in October. The downward revision affects all major economic regions and countries, with the exception of the Euro area. While the IMF previously predicted a contraction of 0.6 per cent for the Euro area in July 2013, it is slightly more positive now – assuming the region will contract by 0.4 per cent. This upward revision is in part due to slightly stronger growth in Germany (up from 0.3 per cent to 0.5 per cent). Other EU countries also show signs of recovery, such as Spain that has been one of the worst affected European economies. **Spain's economy grew by 0.1 per cent** in the third quarter after contracting continuously since the second quarter of 2011.

As we have said in earlier publications, much attention is being paid to the European sovereign debt crisis, but little to the **challenges facing the US economy**. This came to light once more, when Republicans blocked the approval of the budget and the US government had to close down some of its services for a couple of days. A major crisis was averted through the signing of an interim appropriation bill that **postponed major decisions to next February**. The Federal Reserve Bank announced the continuation of its USD85bn per month bond buying policy that increases the cash in circulation and also reduces the value of the USD vis-à-vis other major currencies. Since this results in export advantages, the **US Treasury's criticism** of Germany's export-led growth is **unconvincing**.

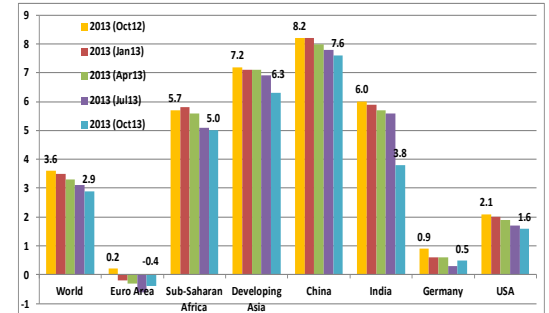
The **Namibian economy** is expected to **grow at a slower pace** than in 2012 (5 per cent). The Bank of Namibia expects GDP growth to reach 4.7 per cent compared to 4.0 per cent predicted by the IMF. This is still significantly higher than the growth of 2.0 and 2.7 per cent during the first two quarters respectively. However, quarterly growth rates are often revised since they are based on relatively few data sources.

Oil and fuel prices

Oil prices dropped from above USD115 per barrel in September to around USD105 per barrel in November. This translates into a **decline of 5 per cent** since the beginning of 2013 and of 4 per cent compared to a year ago. The easing of tension over Iran's nuclear ambitions has helped lower oil prices. However, in the **local currency the oil price is 16 per cent higher** than at the beginning of 2013 and 14 per cent higher than a year ago – with increases caused by the de-

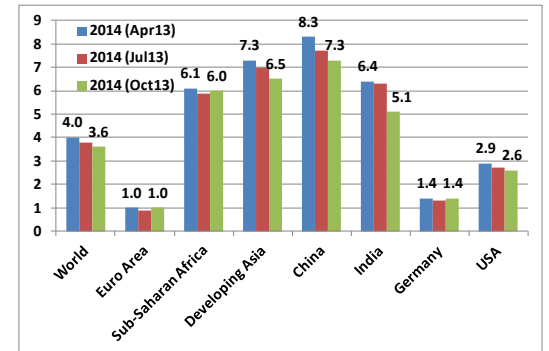
NAD – Namibia dollar
 USD – United States of

IMF growth forecasts for 2013



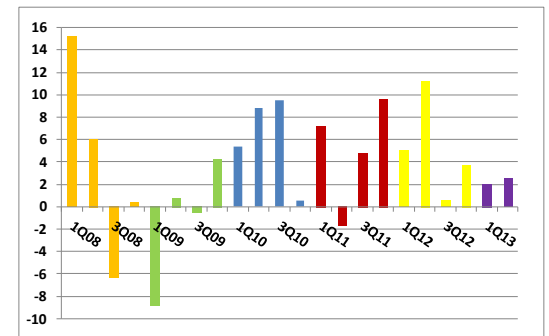
Source: IMF, World Economic Outlook, various publications.

IMF growth forecasts for 2014



Source: IMF, World Economic Outlook, various publications.

Namibia Quarterly GDP Growth, 1Q08 to 2Q2013



Source: Namibia Statistics Agency.

America dollar
Barrel of oil –
158 litres

preciation of the Namibia dollar. Petrol prices have remained steady since the beginning of August while the cost of diesel has been stable since the beginning of October although prices are still high. Compared to January 2013 fuel prices are up by about 11 per cent.

The International Energy Agency expects the **USA to become the largest oil producer** by 2015 surpassing Saudi Arabia and Russia owing to her shale oil deposits. The USA is using hydraulic fracturing to exploit the oil – a technology Shell is planning to use in the Karoo in South Africa. The increased US production will have a slightly dampening impact on **future oil prices** that are expected to rise to USD235 per barrel in nominal terms by 2035 as opposed to USD250 per barrel that was expected at the beginning of 2012.

Exchange rates

Price in Namibia dollars for one unit of a foreign currency

The **South African rand** and hence the Namibia dollar **remains under pressure**. It has lost on average 21 per cent of its value against the three currencies – US dollar, British pound and Euro – since the beginning of the year. While it strengthened towards the end of October and was trading below ZAR10 to the USD, it has depreciated by 5, 4 and 2 per cent respectively since then against these currencies. Interestingly, the **rand depreciated most against the Euro** – 23 per cent since January 2013 and 21 per cent since November 2012 – indicating the strengths of the Euro area despite the remaining fiscal, economic, social and political challenges. On the other hand, without the US policy of cheap money, the rand would have depreciated at a greater rate against the US dollar. The **recent depreciation** was **caused by** the threat of **industrial action** in the platinum mining industry, which eroded investor confidence further.

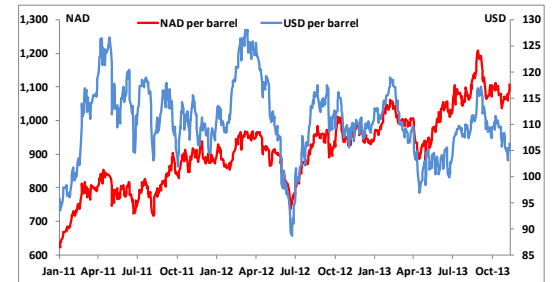
Inflation

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).

The Namibia Statistics Agency has published the **rebased, reweighted and revised Consumer Price Index (CPI)**. The **Base month** was changed from December 2001 to December 2012. The **weights** of the various items are based on the latest Household Income and Expenditure Survey 2009/10 and no longer on the NHIES 1993/94. The category of Housing, electricity and water accounts now for the largest share of the consumption basket – 28.4 compared to 20.6 per cent previously. It is followed by Food and non-alcoholic beverages – down from 29.6 to 16.5 per cent – and transport – slightly down from 14.8 to 14.3 per cent. Of concern is certainly household expenditure on **Alcoholic beverages and tobacco** that **surged from 3.3 to 12.6 per cent** of the total consumption basket. This figure is way above expenditure in Botswana (9.3 per cent) and South Africa (5.4 per cent). Finally, a number of errors in the computation of the CPI were identified and corrected during the exercise. Since the new weights are applied for 2013, but not for the previous years, the inflation rates when comparing the CPIs of 2013 to the ones for 2012 have to be treated with some caution.

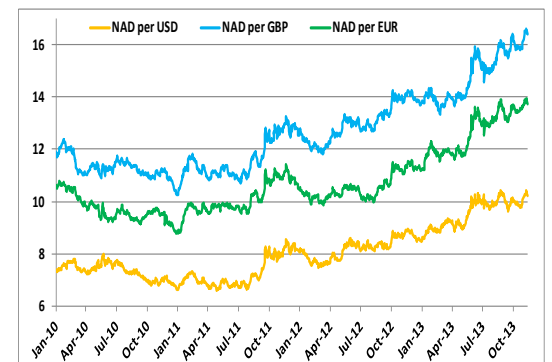
The overall **inflation rate dropped** for a second consecutive month from 6.0 per cent in August to **4.9 per cent** in October. The **main driver** for this trend was the category 'Housing etc.', for which the inflation rate dropped from 7.0 per

Oil prices in USD and in NAD, Jan. 2011 to Nov. 2013



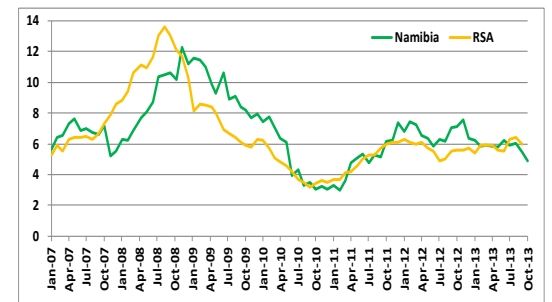
Source: Oil price in USD - Energy Information Administration, daily data. Oil prices in NAD - Authors' own calculation.

Selected exchange rates: NAD per foreign currency, Jan. 2010 to Nov. 2013



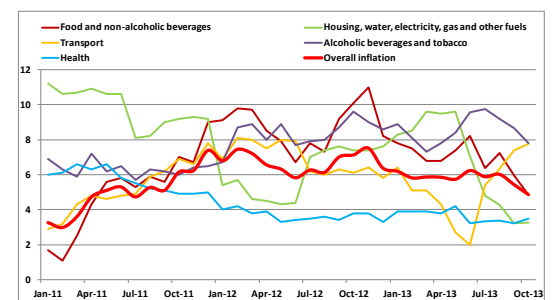
Source: South African Reserve Bank, daily data

The new Namibian inflation rates and the South African, Jan. 2007 to Oct. 2013



Source: Namibia Statistics Agency

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



Source: Namibia Statistics Agency

Note: NSA has published reworked inflation rates for these categories only for June 2013 to October. All

cent in June to 3.3 per cent in October. **Food price inflation decelerated** as well from 8.2 per cent to 4.8 per cent during the same period. Price increases for alcoholic beverages slowed down as well, while consumers have to cope with strong price acceleration for transport – up from 2.0 per cent to 7.8 per cent. **Motorists** are, in particular, **paying more for vehicles** (the price increase rose from 2.9 per cent to 9.2 per cent) and for fuel and maintenance (inflation rose from 3.9 per cent to 9.4 per cent between June and October). The CPI is based on an average Namibian household. Given the stark income inequalities, the consumption patterns of Namibians differ significantly, which would justify the computation of CPIs and **inflation rates for expenditure quintiles** in addition to the average inflation rate.

Crop prices

Futures contracts are contracts between parties to buy or sell commodities at a specified price and future date, e.g. December.

White maize is trading 14 per cent higher than in January, but is fluctuating at similar levels as a year ago. **Wheat prices increased by four per cent** this year but are down by three per cent compared to November 2012. The drop in prices compared to last year is a result of the expected **record harvest of maize** in the USA, which is the largest maize producer, and in Canada, which is the second largest wheat exporter. The US Department of Agriculture estimates the maize harvest to be **30 per cent above last year's** bumper harvest of 10.8 bn bushels. The harvest could reach 14 bn bushels (around 355 m metric tonnes). Canada's record wheat harvest, however, has put the transport infrastructure to a test and has resulted in the delay of shipments.

Mineral prices

Price for un-processed minerals

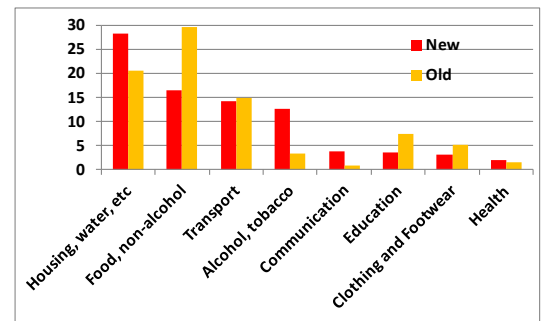
Copper prices rebounded on better than expected manufacturing sector data from not only China, but also the USA and Europe in October, but have dropped again since then. Zinc prices are about nine per cent below prices in January 2013 and four per cent below prices a year ago, while copper lost 12 per cent and nine per cent over the same period. The metals were trading at USD1,851 and USD6,938 per tonne in the middle of November. **In NAD terms, however, prices showed the opposite trend.** Zinc and copper prices improved by eight and five per cent respectively compared to January 2013 and by 12 and 5 per cent compared to Nov 2012 because of the weakening of the local currency.

The **uranium price** has **remained fairly flat** since July 2013, trading at USD35.35 per pound in the middle of November. Uranium has shed some 19 and 14 per cent of its price when compared to January 2013 and November 2012 respectively, reflecting **weak demand**.

The **gold price** is expected to **drop on an annual basis** for the first time in 13 years amid expectations that the US Federal Reserve Bank will taper the stimulus package of USD85 bn per month in December, which resulted in outflows from exchange-traded funds. Lower price levels have, however, **increased consumer appetite for jewellery**. Gold is trading currently below USD1,300 per ounce, which is 22 per cent lower than in January 2013 and 26 per cent below prices a year ago. However, prices recovered during the third quarter from a low at the end of the second quarter, which in turn affected demand negatively. In addition, the

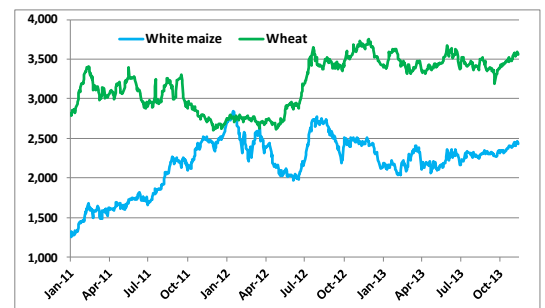
other inflation rates are still the old ones.

Comparison of new and old weights for selected main groups



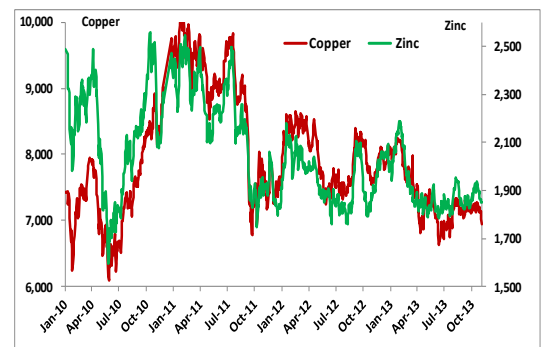
Source: Namibia Statistics Agency

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



Source: SAFEX, daily data

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



Source: London Metal Exchange, daily data

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



Source: World Gold Council, daily data

Namibia's performance in international comparison

decision by **India's government to curb the import** of gold in order to address the current account deficit contributed to the subdued demand.

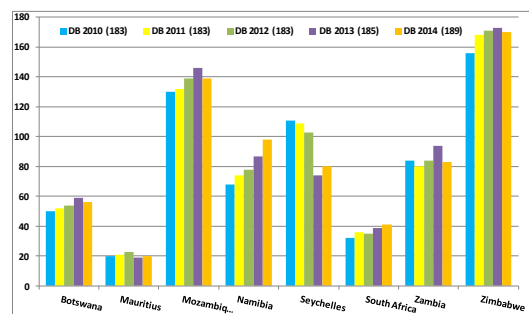
Namibia has slipped further in the Ease of Doing Business ranking to 98th from 87th out of 189 countries. While some other countries in the SADC region also dropped some places, **Namibia has slid the most** – 11 ranks – followed by Seychelles (six places), South Africa (two places) and Mauritius (one place). Other countries, such as Botswana, Mozambique and Zimbabwe managed to reverse the trend of losing ground in previous years and improved their ranking. Zambia made good strides and bypassed Namibia, taking 83rd place.

Namibia's performance in the ten components was mixed. The country **improved** the most in the component '**Dealing with construction permits**' (up by 25 ranks) mainly because the costs dropped significantly from 111 per cent of the per capita income to 31 per cent. However, the time for the application process was also cut from 139 days to 123 days, while the number of procedures remained the same – 12. **Progress** has also been **made** in easing **access to electricity**. Namibia moved to place 72; an improvement by 15 ranks. On the other hand, the **country dropped by 28 places** to rank 69 caused by a substantial increase in the number it takes to **enforce contracts**; 460 days as compared to 270 days in previous years. **Resolving insolvency** has suffered from the same cause – it **takes now 2.5 years** to close a business instead of 1.5 years. Subsequently, Namibia dropped by 26 places to rank 85. **Most worrying** is the country's ranking in terms of **registering property**. Once again, it takes now eight days longer than last year and even 31 days more than three years ago. The time consuming process – 54 days – resulted in Namibia shedding nine ranks and dropping to rank 178 out of 189 countries.

As the examples of construction permits and access to electricity indicate, it is possible to speed up bureaucratic processes. If Namibia wants to achieve the objectives of NDP4 and Vision 2030 the trend of falling behind in terms of competitiveness has to be reversed. A **review of bureaucratic procedures** has to be undertaken as a matter of urgency with the aim of **streamlining processes** and improve administrative efficiency.

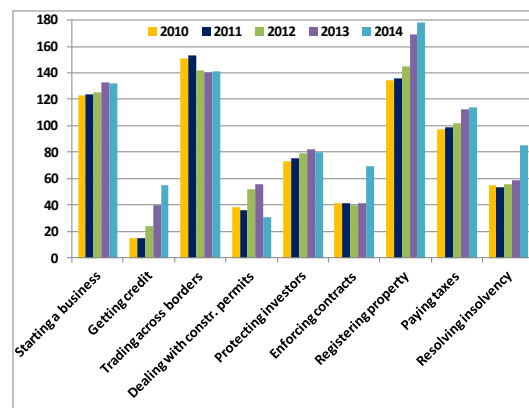
Similarly, Namibia's ranking in the **Economic Freedom Report 2013** based on 2011 data and compiled by the Fraser Institute **deteriorated from rank 88 to 97** out of 152 countries. The ranking is based on five components. **Namibia did well** in two of them, namely **Legal System** and Property Rights (rank 27) and **Regulation** (50), while falling behind her peers in Size of Government (99), Sound Money (referring to money supply and inflation, rank 113) and Freedom to Trade Internationally (rank 117).

Ranking of selected Southern African countries in the Ease of Doing Business Report, 2009 -10 to 2013 -14



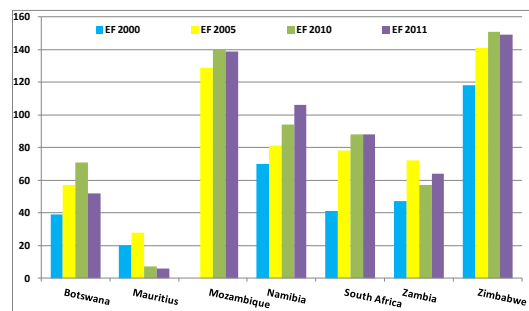
Source: World Bank & International Finance Corporation, various years

Namibia's ranking in the various categories, 2010 to 2014.



Source World Bank & International Finance Corporation, various years.

Ranking of selected Southern African countries in the Economic Freedom Report, 2000 to 2011



Source Fraser Institute, 2013, Economic Freedom of the World 2013 Annual Report.