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 – February 2014

## A review of 2013 and prospects for 2014

**Global economic develop-ments**

**US fiscal policy**

Since the USA is the largest economy, whatever happens there on the political or economic front attracts the attention of a worldwide audience. At the beginning of 2013, the US fiscal policy dominated international headlines owing to the fiscal cliff. Tax increases coupled with the termination of tax exemptions raised concerns about a possible return to recession because of the negative impact the fiscal policy could have on the consumers' disposable income. The worst-case scenario did not happen. Instead quarterly GDP growth improved from 1.1 per cent in the first quarter to 4.1 per cent in the third. However, the US's high budget deficit and total public debts re-emerged in the news in October 2013. Since the parties could not agree on a new budget and higher debt ceilings, non-essential government services closed down until the two parties reached an agreement on a temporary budget and postponed the hard decisions to February 2014. It is expected that the budget will be approved. However, decisive steps are required to bring the budget deficit and the total public debt not only under control but to reduce it in order to increase macro-economic stability and not least to maintain the US's favourable credit rating that is under threat.

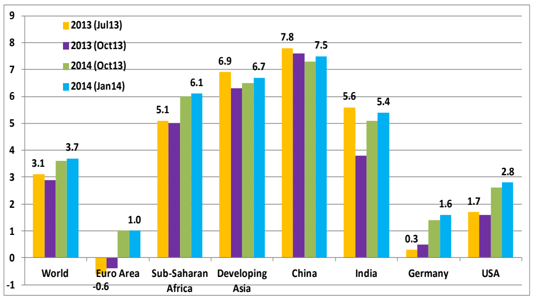
**Tapering quantitative easing**

In addition, the question of tapering quantitative easing in the USA remained a topic throughout the second half of 2013. The Federal Reserve Bank pumped USD85 billion every month into the market by buying bonds. This cheap money benefitted, among others, the currencies of emerging markets such as South Africa. The US's central bank hinted during the second half of 2013 that it would reduce its bond-buying programme as economic conditions improve. Hence the bank took the decision to reduce its monthly bond-buying programme to USD75 billion in January and then to USD65 bln with further reductions expected. These cuts have already resulted in capital outflows not only from emerging markets and recently affected, in particular, the Australia dollar, the Turkish Lira and the Argentine peso and resulted in interest rate increases. In order to avoid any turmoil on the financial markets, further tapering needs to take into account the potential impact on global, in particular emerging, financial markets and hence the global economy.

**Global growth prospects**

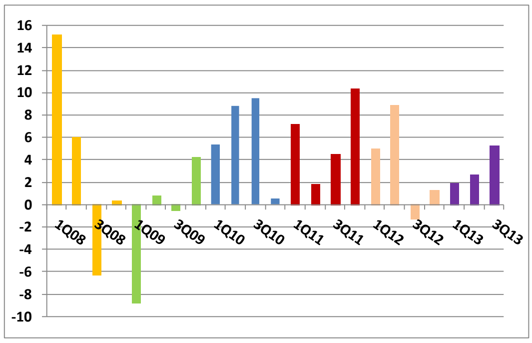
The more optimistic tone about economic prospects for 2014 has also resulted in a reversal of the growth forecast by the International Monetary Fund. While the IMF has adjusted its growth forecast downward every quarter over the past three years, it forecast slightly improved growth in January 2014. The Fund now expects global growth at 3.7 per cent, up from 3.6 per cent in October 2013. The Euro zone is

**IMF growth forecasts for 2013 and 2014**




Source: IMF, World Economic Outlook, various publications.

**Namibia Quarterly GDP Growth, 1Q08 to 3Q2013**




Source: Namibia Statistics Agency.

expected to return to positive growth (1.0 per cent) this year led by a strengthening German economy. Prospects for sub-Saharan Africa are also rosier with growth of 6.1 per cent forecast as compared to 5 per cent in 2013 owing to increased demand for commodities, among other factors. However, despite this optimism a number of downside risks remain including the impact of the Federal Reserve Bank's tapering, high unemployment rates in developed countries, geopolitical risks that could threaten the disruption of oil supplies and the soundness of financial institutions in China and other countries.

**Namibian growth prospects**

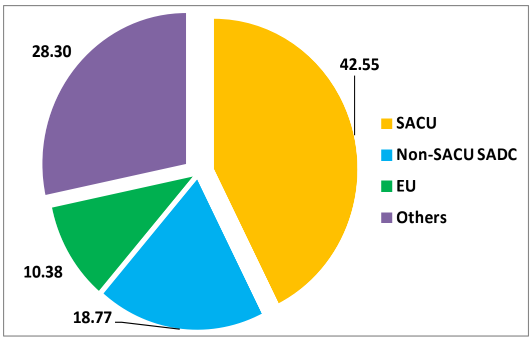
While economic growth in Namibia last year most likely did not meet expectations that were in place at the beginning of 2013, prospects are brighter for 2014. Increased economic activities globally will have a positive impact on the demand for commodities and eventually on prices, which will benefit the Namibian economy like other raw material exporting economies.  However, growth will also be driven by home-made demand, in particular in the construction sector. The developments of new mines (Husab Uranium mine, Otjikoto gold mine, Tschudi copper mine), the expansion of the Walvis Bay harbour, the construction of the Neckartal Dam, and building activities such as the Grove Mall, the mass housing scheme once it takes off, new hotels and residential buildings will benefit not only the construction sector, but also the manufacturing sector that supplies materials, the transport sector, and the financial sector. Since construction is a labour-intensive activity, it will have a positive impact on the labour market and eventually on the wholesale and retail trade sector through increased purchasing power. Like other export-oriented sectors, tourism could benefit from the weak Namibia dollar that increases the purchasing power of overseas tourists and makes Namibia a more attractive tourist destination. Uncertainties, however, remain concerning the agricultural sector after the worst drought in three decades resulted in a substantial de-stocking of the livestock herd.  Since it will take some time to rebuild the herd it is expected that livestock marketing and hence meat processing will take a dip.

**Trade policies and regional integration**

**EPA negotiations**

The deadline of 1 October 2014 for the signing of the Economic Partnership Agreement (EPA) between the SADC EPA group and the EU is approaching. The negotiations, which have been ongoing for several years, were necessitated by the need to replace the current Cotonou Agreement with a new agreement that is in line with WTO requirements in particular concerning the reciprocity of preferences. According to reports, further progress was made during two meetings in June and November 2013 with only some issues concerning agricultural products being left to be resolved. Currently, Namibia benefits from the duty-free, quota-free access to the EU market, which is at risk, should there be no substantial progress in the negotiations and agreement on a final EPA. The meat, fish and grape industries would lose the

**Namibia's exports to selected regional groupings as per cent of total exports, Nov 13**

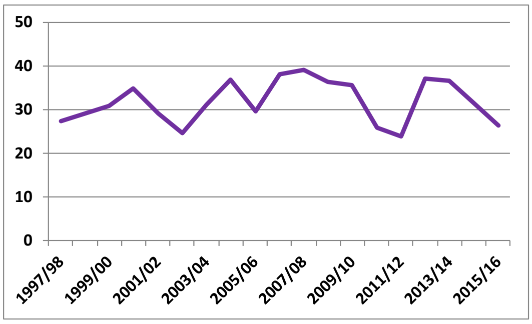



Source: Authors' calculation based on Namibia Statistics Agency data most, should the EU go ahead after the deadline has passed and impose tariffs on the importation of Namibian products into the EU market.

**SACU negotiations**

Namibia received about 37 per cent of its total revenue from the SACU Common Revenue Pool (CRP) during the current fiscal year. Beyond the fiscal benefits, SACU grants Namibian exporters duty-free access to Africa's largest economy. The process of implementing the 2002 SACU Agreement can, however, only be described as slow with most of the envisaged institutions not yet being set up such as the SACU Tariff Board and SACU Tribunal. Little progress was made in designing and agreeing on common policy frameworks for agriculture and industrial development. The main bone of contention is currently the Revenue Sharing Formula. While South Africa contributes about 98 per cent of CRP funds, 55 per cent of this amount is distributed to the other four member countries. Although this amounts to a significant transfer of funds from South Africa to the other member states, South African businesses have benefitted from the customs union in various ways including the polarisation effect and the captive market in the SACU countries. South Africa would like to see changes to the formula and in particular to the use of funds in member countries. Instead of treating the SACU transfers like other government revenue, these funds should be supportive of regional integration (such as regional infrastructure) and industrialisation rather than used for consumption. South Africa has, therefore called for a gathering that is seen by some analysts as a make-or-break meeting for SACU. Since it is election time not only in South Africa, but also in Botswana and Namibia this year, tough negotiations can be expected in order to score some political points on home fronts.

**SACU transfers as percentage of total revenue, 1997/98 to 2015/16**




Source: Ministry of Finance, Estimates of Revenue and Expenditures, various years.

Botswana is to benefit from the relocation of the De Beers office to Gaborone also in terms of her share from the SACU CRP, since customs duties are shared based on the countries' share of intra-SACU imports. Since Botswana imports diamonds now directly from Namibia, her share in intra-SACU imports will increase significantly.

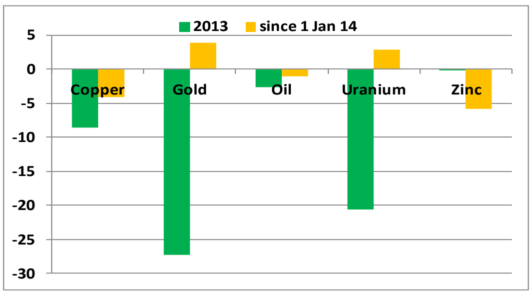
**COMESA, EAC, SADC Free Trade Area**

Progress on the Tripartite Free Trade Area comprising of COMESA, EAC and SADC, has been slow and has fallen behind schedule. The objective of the Tripartite FTA was to overcome the challenge of overlapping memberships since quite a number of countries are members of more than one regional integration scheme.

**Commodity prices**

2013 was not the best year for commodity-exporting countries such as Namibia. Gold suffered the most with prices dropping by 27 per cent followed by uranium (-21 per cent). Zinc prices closed the year at almost the same level they started 2013 (USD2,085 per tonne), while copper prices ended the year 8.5 per cent lower at USD7,394 per tonne. Oil closed almost 3 per cent lower, which would have been good news for all motorists were it not for the weaker currency that resulted in an increase of oil prices in NAD by 21

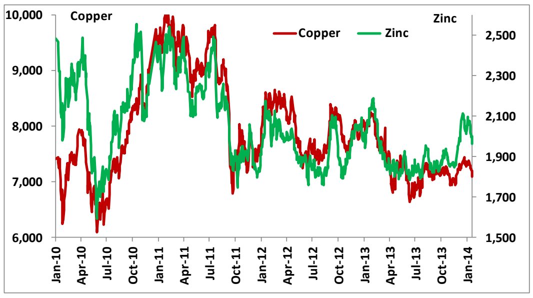
**Price trends for selected commodities**



per cent. Gold and uranium recovered some ground during the month of January (gaining 4 and 3 per cent), while prices of the other commodities continued weakening slightly. The currency depreciation could have cushioned mining companies from lower prices in USD, but it can be assumed that they have hedged their foreign exchange earnings and hence are limited in the ways they can exploit the currency depreciation. The uranium mining sector remains hard hit by low prices and a number of new developments in Namibia have been stretched over longer periods of time (except for the Husab mine), while existing companies have to reduce costs mainly by shedding labour in order to reduce losses. Cautious optimism about a stronger recovery of the global economy is expected to stabilise or even increase demand and prices, which would support growth of the Namibian economy.

Source: Authors' calculation based on LME, Gold Council, EIA and Ux Company daily data.

**Copper and zinc prices in USD per ton, Jan. 2010 to Jan. 2014**




Source: London Metal Exchange, daily data

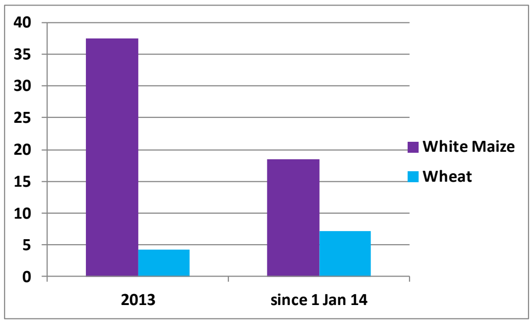
## Crop prices

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

Contrary to commodity prices crop prices (white maize and wheat) gained during 2013. White maize prices performed strongly adding 38 per cent, while wheat prices increased by 4 per cent. The trend continued into the new year. Crop prices moved upward by 18 per cent and 7 per cent respectively during January mainly on account of the cold spell in the USA that is expected to have a negative impact on the harvest of winter crops, in particular wheat, since the USA is the largest wheat exporter.

Wheat prices for deliveries in the middle of 2014 rose over recently to close to NAD3,900 per tonne on the South African Futures Exchange (Safex) from NAD3,785. Maize prices were supported in the USA by expectations of increasing demand for livestock fodder. However, white maize for delivery in July 2014 kept on trading below NAD2,500 per tonne on Safex, lower than the current price of NAD3,240.

**Price trends for wheat and white maize**



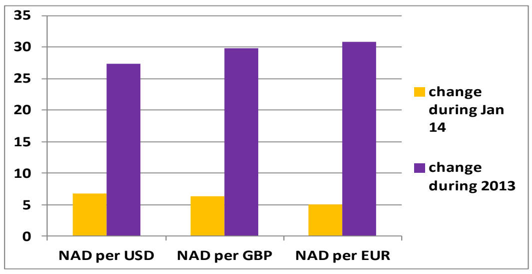

Source: Authors' calculation based on SAFEX daily data

## Exchange rates

Price in Namibia dollars for one unit of a foreign currency

The South African rand and therefore the Namibia dollar weakened substantially against major currencies such as the US dollar, British pound and Euro during 2013. While the losses were strongest against the Euro exceeding 30 per cent in 2013, the currency depreciated the most against the US dollar during January 2014 (6.7 per cent) indicating the strengthening of the USD. The depreciation is caused by domestic (political uncertainties [elections], ongoing strikes, etc.) and global factors (cut backs on quantitative easing in the US) and could persist during 2014. This will result in inflationary pressure and lead to higher interest rates.

**Depreciation of the NAD against major currencies**




Source: Authors' calculation based on South African Reserve Bank daily data

Hanns Seidel Foundation

**Economy Watch Namibia 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.**