



## Economy Watch Namibia – March 2014

- A look at personnel expenditure in the 2014/15 to 2016/17 National Budget – P. 1
  - Rebased Preliminary National Accounts for 2013 – P. 2

**2014/15 to 2016/17 Medium Term Expenditure Framework (MTEF)**

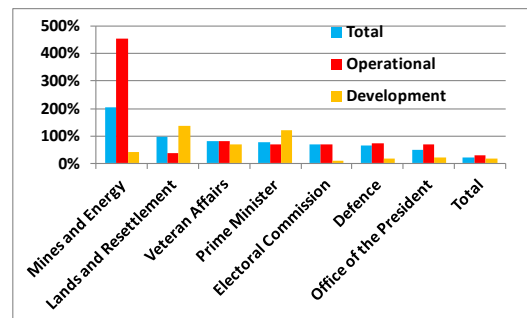
At first glance, Government is continuing its expansionary fiscal policy. Total expenditure is expected to increase by 26.7 per cent in the 2014/15 Financial Year (FY) compared to the previous FY. Operational expenditure is growing at a faster pace (29.4 per cent) than development expenditure (17.6 per cent). This trend will undermine attempts to establish lasting assets for the economy. Since revenue is expected to grow by 19.6 per cent from a revised total of NAD43.87 bln to NAD52.47 bln in 2014/15, the budget deficit as a percentage of GDP will increase to 5.5 per cent or NAD7.7 bln. In the MTEF for 2013/14 to 2015/16 the deficit for 2014/15 was anticipated at 4.1 per cent. Total debt will remain at manageable levels of 27.2 per cent of GDP and is expected to drop to 25.6 per cent at the end of the MTEF period. Total debt stock will rise to NAD38.5 bln or NAD17,300 per capita. However, there might still turn be fiscal consolidation if the experience of the past is anything to go by. The fiscal deficit for the FY 2013/14 was estimated at 6.4 per cent, but current indications point to a much lower deficit of around 2.8 per cent because of higher than expected revenue and a slower execution rate.

**Personnel expenditure**

Personnel expenditure will increase by 25.4 percent to NAD22.0 bln accounting for 45.6 per cent of total operational expenditure. The Ministry of Defence’s allocation for payment of personnel increases by 65 per cent. This explains in part why the ministry receives the second highest share of the total budget. The payrolls of the Auditor General’s office and the Ministry of Veterans both increase by 56 per cent. But some ministries will have to do more with less. Wages and Salaries for the Ministry of Home Affairs and Immigration, the Ministry of Information and the National Planning Commission are expected to drop by 15, 22 and 33 per cent respectively when compared to 2013/14. Personnel expenditure accounts for over 70 per cent in the Ministry of Lands (73 per cent), the Police (72 per cent) and the Anti-Corruption Commission (71 per cent). The best paid jobs are found in the Ministry of Foreign Affairs which is allocated NAD464.5 million for the 370 funded positions equalling an amount of NAD1.2 million per annum per position. Positions in the National Assembly and Anti-Corruption Commission are also relatively well remunerated with annual amounts of NAD553,198 and NAD538,480 on average per position respectively. The ministries of Works, Defence and Home Affairs budget the lowest amounts on average per position with NAD145,975; NAD159,709 and NAD163,617 respectively. Although the Ministry of Education is expected to develop the knowledge and skills of our future leaders, the average amount per position stands at NAD197,022, which is the seventh lowest amount of all 31 Votes.

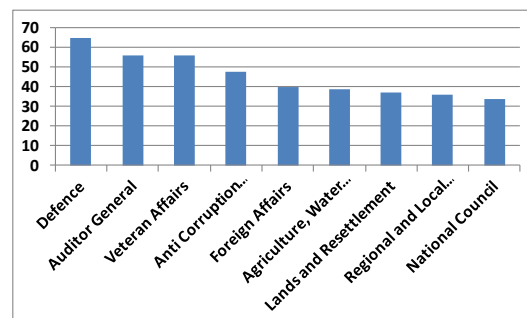
**Remuneration per funded position**

### Change in budgetary allocation to selected votes – 2014/15 compared to 2013/14



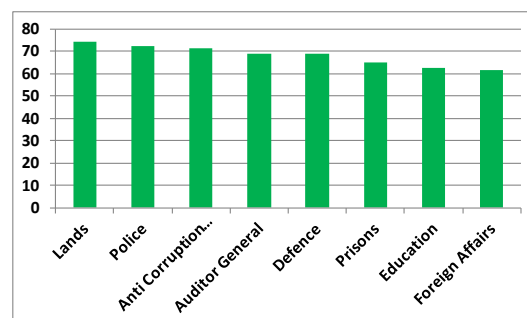
Source: MoF, MTEF 2014/15 to 2016/17

### Increase in the allocation to personnel expenditure, 2014/15 compared to 2013/14



Source: MoF, MTEF 2014/15 to 2016/17

### Personnel expenditure as share of total operational expenditure for selected votes



Source: MoF, MTEF 2014/15 to 2016/17

## Approved and funded positions

Total funded positions increase by 16.8 per cent to 112,499 in 2014/15, while approved positions grew by 27.3 per cent to 141,437. While 25,923 positions out of 26,923 approved positions in the Ministry of Defence are funded, there are stark gaps in other security agencies between approved and funded positions. Only 2,055 out of 6,361 approved positions are funded for Prison and Correctional Services, and 15,538 out of 37,375 for the Police. Given the crime situation in the country, more emphasis needs to be placed on funding and filling vacancies for vital services such as the Police. The number of funded positions increased the most for the Ministry of Education (up from 24,999 to 39,135) that maintains its position as the largest employer within Government followed by the Ministry of Defence and the Police. Although there might be pressure on Government to create jobs in order to fight the high rate of unemployment, the increase to almost 150,000 civil servants over the next three years will result in an increasing share of the total budget being allocated to personnel expenditure rather than to building lasting assets. This will make the much-needed reform of the civil service even more challenging and will place a financial burden on the next generation of taxpayers.

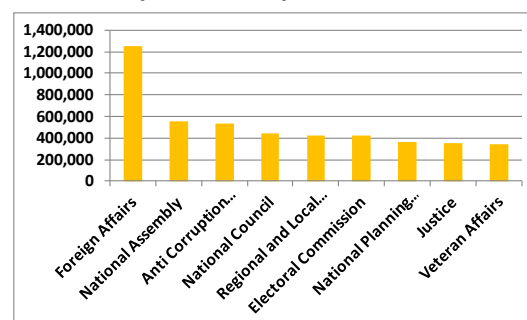
## Economic growth in Namibia

The Namibia Statistics Agency (NSA) has released its re-based, revised and re-weighted Preliminary National Accounts for 2013. 2010 is the new base year, since this is the year for which most recent household consumption data is available, being derived from the 2009/10 Household Income and Expenditure Survey. New weights have been calculated because some activities, such as uranium mining, have gained importance. Furthermore, some activities have been re-classified such as the medical aid fund that has been moved from the health sector to the insurance sector. These changes resulted in revised growth figures for previous years. The contraction in 2009 was slightly stronger than previously estimated – 1.5 per cent as opposed to 1.1 per cent – but growth rates for the years 2008 to 2012 were revised upwards. Economic growth for the past three years averaged 6.4 per cent, up from 5.7 per cent previously. Growth peaked at 6.7 per cent in 2012 (this is 1.7 per cent higher than the figure before the revisions were made).

Growth for 2013 is estimated at 4.4 per cent, which is in line with expectations. The dramatic impact of last year's drought is reflected in the contraction of the agricultural sector by 27 per cent. The livestock sub-sector declined by a worrying 39 per cent due to the decline in inventories (number of livestock) and in fixed stock (number of breeding cows). In addition, crop production dropped by 9 per cent. The other two primary sectors, fisheries and mining, contracted as well by 2.6 and 1.2 per cent respectively. The growth in diamond mining of 6.6 per cent could not level out the decline in uranium production (6.9 per cent) and in metal ores (30.4 per cent). Overall the output of primary industries weakened by 9.3 per cent.

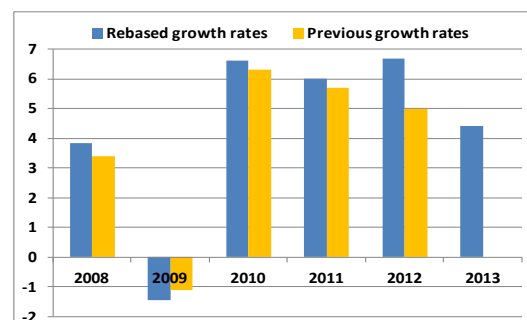
In contrast, strong growth of the construction sector by 34.5 per cent resulted in an overall growth of secondary industries by 8.7 per cent. The construction sector continues to benefit

## Allocation per funded position in NAD



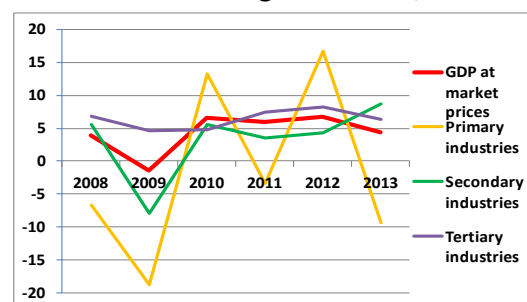
Source: MoF, MTEF 2014/15 to 2016/17

## Annual growth rates based on the old 2004 base year and on the new 2010 prices

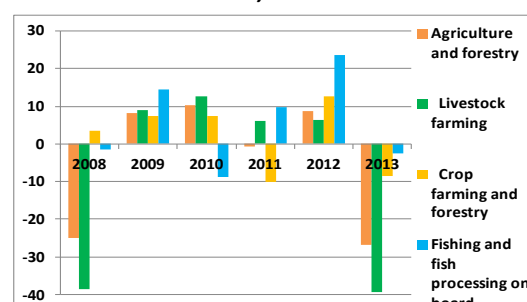


Source: Namibia Statistics Agency (for all charts)

## Overall and sectoral growth rates, 2008-12



## Annual growth rates for the agricultural and fisheries sectors, 2008 - 12



from the development of new mining sites such as the Husab Uranium mine, the Otjikoto Gold mine and Tschudi Copper mine, from the establishment of new shopping malls, office and residential buildings and from Government's investment in infrastructure. The manufacturing sector did not live up to expectations and expanded by just 2.2 per cent. Owing to the increased number of marketed cattle, the meat processing sub-sector was the best performer under manufacturing activities (up by 15.8 per cent), followed by the manufacture of fabricated metals (10.9 per cent). Other sub-sectors such as diamond processing (12.5 per cent) and basic non-ferrous metals (10.8 per cent) contracted at double digit rates.

Finally, the tertiary sector grew by 6.4 per cent in 2013. Two sectors increased by double-digit figures, namely financial intermediation (14.1 per cent) and, unexpectedly, tourism by 10.6 per cent. The transport and communication sector, an NDP4 priority sector, showed above average growth of 8.4 per cent spurred by the transport sector (13.8 per cent).

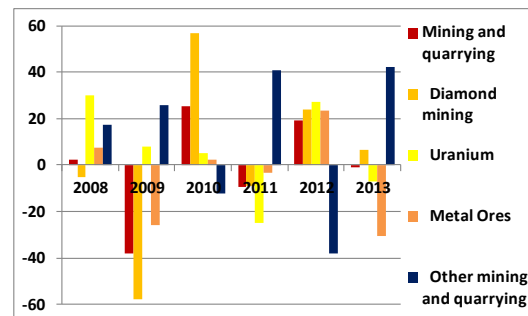
Despite one of the highest economic growth rates in 2013 in Namibia's history and a strong performance of the labour-intensive construction sector, the unemployment rate increased by 2.2 percentage points to 29.6 per cent in the same year. This certainly calls for more in-depth analysis. Likewise, the weak performance of the manufacturing sector and some of its sub-sectors, notably diamond processing, warrants attention. Manufacturing, a national priority since independence, grew by just 2 per cent on average over the past six years.

## Commodity prices

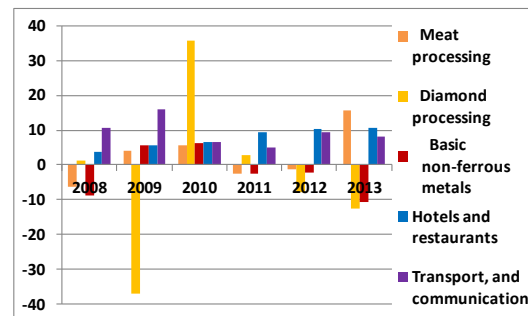
Despite more optimistic global economic growth prospects, commodity prices have not yet started increasing with the exception of gold. Zinc prices have declined by 5 per cent since January 2014, but compared to a year ago are up by 7 per cent. Copper prices have weakened even more – by 11 per cent since the start of the year and by 18 per cent over the past 12 months. Copper traded at USD6,554.50 per tonne and zinc at USD1,980.50 per tonne at the end of March. Prices dropped recently after economic growth for Japan was adjusted downward from 1.0 to 0.7 per cent for 2013 and amid an even less optimistic outlook for this year, because of a drop in demand in particular on the export side. Data from China has not helped either. China incurred a trade deficit in February owing to an 18 per cent drop in exports. Preliminary data for the manufacturing sector indicates a slowdown or even contraction for March. Weatherly incurred losses owing in part to the lower copper price. Recent lay-offs of workers at the Otjihase and Matchless mines could be attributed to the financial impact of the low prices.

A similar trend can be observed for oil prices that have stayed below USD110 per barrel for most of this year and are currently 3.1 per cent lower than at the beginning of 2014, but on the same level as a year ago. This, however, has not translated into lower domestic fuel costs, because of the depreciation of the ZAR/NAD. In NAD terms, oil prices remain at the same level as

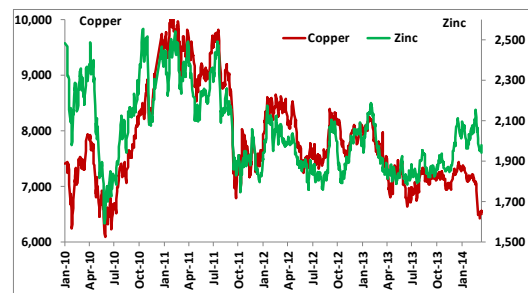
## Annual growth rates for the mining sectors, 2008 - 2012



## Annual growth rates for selected secondary and tertiary sectors, 2008 - 2012

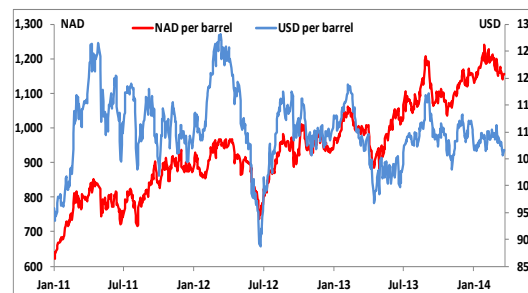


## Copper and zinc prices in USD per ton, Jan. 2010 to March 2014



Source: London Metal Exchange, daily data

## Oil prices in USD and NAD per barrel, Jan. 2010 to March 2014



Source: EIA daily data, authors' own conversion into NAD based on SARB daily exchange rates

at the beginning of the year, but are 17 per cent higher than during the same period last year. Subsequently, petrol and diesel (500ppm) prices increased by 5.3 and 4.4 per cent since January 2014 and are now 11.0 and 13.6 per cent above the price level in March 2013.

Gold has benefited from the Ukrainian crisis. Prices gained some 11 per cent since the beginning of 2014, but remain 17 per cent below the prices in March 2013. Gold traded at USD1,336.00 per ounce on 21 March. Uranium prices have fluctuated at around USD35 per pound since the beginning of 2014. Uranium traded at USD34.70 per pound in the last week of March, which is 18 per cent lower than a year ago.

## Crop prices

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

Wheat prices have strengthened further since the beginning of March and have surpassed the NAD4,000 per tonne mark. They are currently 13 per cent higher than at the end of 2013 and 16 per cent higher than a year ago. Future maize prices for April have eased compared to March and are up by 10 per cent compared to the beginning of 2014 but by 38 per cent year-on-year. White maize is trading at NAD3,211 per tonne for April, down from NAD3,620 in March, while wheat prices stand currently at NAD4,040 per tonne. Future prices for maize for July and the remainder of the year, however, remain at much lower levels – below NAD2,100 per tonne – and if this holds, will bring some relief for the consumer. Mixed signals are being received from the world’s second largest wheat exporter – Australia – where Eastern states are expected to be affected by the El Nino effect, meaning drier and hotter conditions, while wetter conditions are expected for states in the West. Overall, forecasts point to an above normal global harvest for the 2014/15 season. On the other hand, the turmoil in Ukraine has resulted in uncertainties about that country’s crop production. The country was the ninth largest wheat producer during the 2013/14 season with some 22.3 million tonnes of a total estimated global production of 711.9 million tonnes, but is an even more important exporter of maize and wheat. It was expected that Ukraine could become the third largest exporter during this season, but given the current situation that remains uncertain.

## Exchange rates

Price in Namibia dollars for one unit of a foreign currency

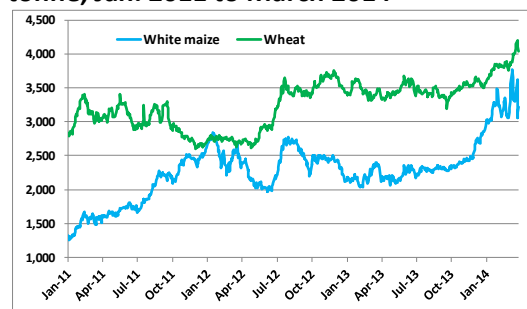
The South African rand to which the Namibia dollar is pegged one-to-one gained ground since the beginning of March as compared to January and February. While the currency depreciated between 5.0 and 6.7 per cent in January and between 4.4 and 5.3 per cent in February against the USD, GBP and Euro the losses dropped to 1.4, 2.0 and 1.0 per cent respectively against these currencies since the beginning of 2014. The tapering of quantitative easing in the USA, strikes in the SA mining sector (in particular platinum) and relatively low growth prospects of 2.7 per cent for South Africa this year are some of the contributing factors. The depreciation of the NAD could result in an acceleration of price increases, but this depends among others on companies’ pricing policies and the degree of competition.

## Gold price in USD per ounce, Jan. 2010 to March 2014



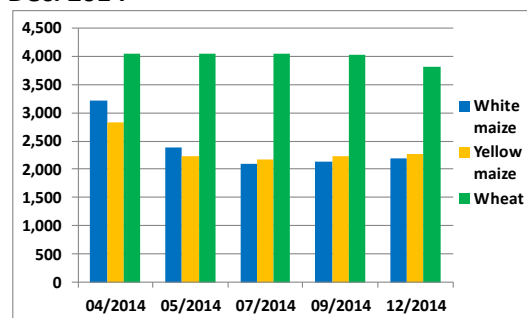
Source: World Gold Council, daily data

## White maize and wheat prices in ZAR per tonne, Jan. 2011 to March 2014



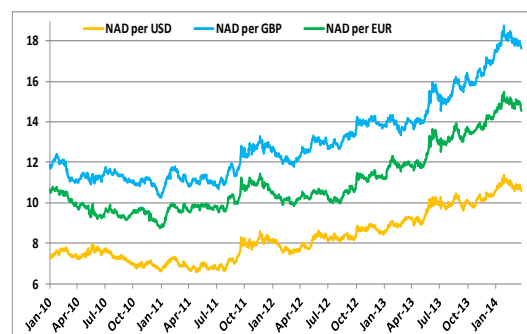
Source: SAFEX daily data

## Future prices for White Maize, Yellow Maize and Wheat in ZAR per tonne, Apr. to Dec. 2014



Source: SAFEX daily data

## Selected exchange rates: NAD per foreign currency, Jan. 2010 to Mar. 2014



Source: SARB daily data