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Economy Watch Namibia – July 2014

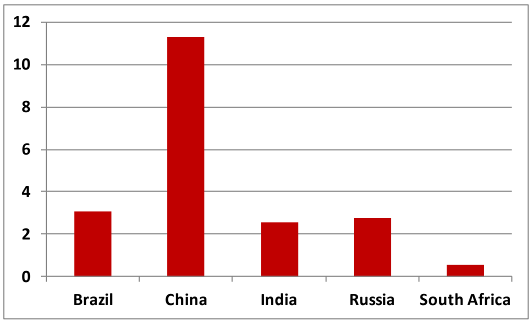
BRICS - Brazil, Russia, India, China, South Africa

The BRIC countries entered the stage in 2006 as a loose group of emerging economies, but held their first formal meeting in 2009. South Africa, then the largest African economy, joined the group in 2010. The group made headlines in mid of July 2014 when they signed agreements to establish a **Development Bank** and an **Emergency Reserve Fund** of USD50bn and USD100bn respectively in order to lessen the dependency on funding from the World Bank and International Monetary Fund (IMF). **China will shoulder the bulk** of the Emergency Fund (USD41bln), while South Africa is going to contribute USD5bln. The remaining countries have committed USD18bln each. It is expected that the **Emergency Fund** will provide **unconditional lending** to member states as opposed to the IMF that attaches strings to its rescue packages. BRICS countries will share the capital of the Development Bank equally. It is estimated that the Development Bank, once it has received the pledges, can lend USD3.4bln annually compared to USD61bln by the World Bank. The creation of the two financing vehicles demonstrates the rising economic power of the group with China being the second largest economy behind the USA accounting for 11.3 per cent of global GDP in 2012 compared to 22.3 per cent of the USA. Brazil is the second largest economy in the group contributing 3.1 per cent to the global GDP followed by Russia (2.8 per cent), India (2.5 per cent) and South Africa with 0.5 per cent. Combined, the BRICS countries accounted for roughly a **fifth of global GDP**. In addition, about **42 per cent of the world's population** or almost 3bln people live in these countries. The combination of the current economic strength and the population suggests that the bloc can become an economic and political powerhouse despite its diversity.

The **per-capita income** further illustrates the **diversity** of the group that includes high income, upper middle-income and lower middle-income countries. Russians topped the group with an average income of USD24,120 in 2013 followed by Brazilians (USD15,034), South Africans (USD12,504) and Chinese (USD12,904). India falls into the group of lower middle-income countries with a per capita income of USD5,410. In comparison, Namibia is classified as an upper middle-income country with a per capita income of USD9,685.

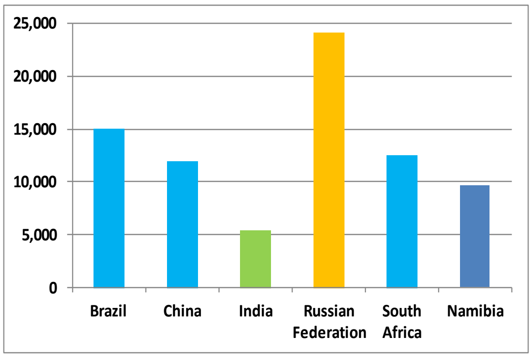
The BRICS societies have grown more unequal over the past two decades with the exception of Brazil (which could be in part attributed to the social welfare programme 'Bolsa Familia). Brazil's Gini-coefficient dropped from 0.58 in the 1980s to 0.55 in 2009. China and Russia owing to their socialist system were quite equal societies in the 1980s with a Gini-coefficient of 0.29

BRICS countries' share of global GDP in per cent



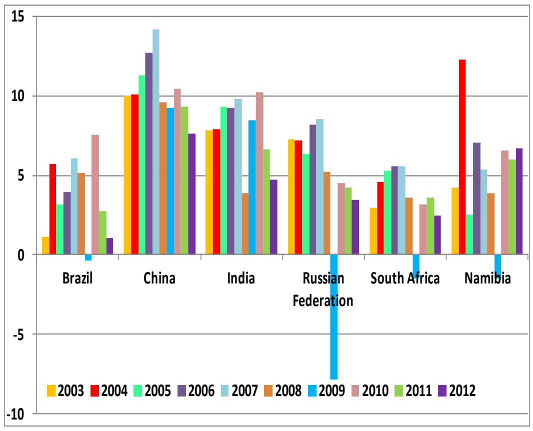
Source: World Bank, World Development Indicators

Per-capita income in BRICS countries and Namibia



Source: World Bank, World Development Indicators

Economic growth in BRICS countries and Namibia in per cent, 2003 to 2012



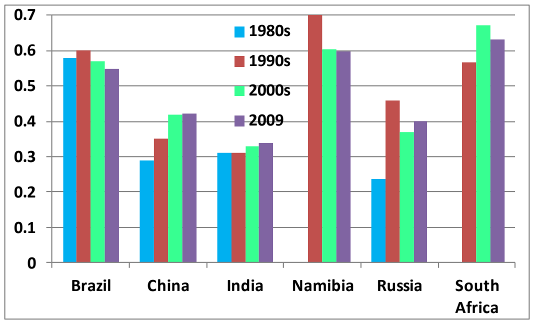
Source: World Bank, World Development Indicators and 0.24 respectively. The distribution of wealth in both countries has since deteriorated as reflected in a Gini-coefficient of 0.42 and 0.40 respectively. While India has remained a fairly equal society with the Gini-coefficient dropping from 0.31 to 0.34 over the period, South Africa has become the most unequal society among the BRICS community as illustrated by the decline in the Gini-coefficient from 0.57 to 0.63. With a Gini-coefficient of 0.60, Namibia fares only slightly better than South Africa.

The **economic performance** of the group over the ten-year period 2003 to 2012 also displayed **diverse picture** with China showing the strongest growth of on average 10.6 per cent, however on a downward trend since 2008 followed by India with 7.8 per cent and Russia with 4.7 per cent. The Brazilian and South African economies grew at a slower pace of 3.6 per cent and 3.5 per cent respectively. The Chinese and Indian economies were the only economies in the group resilient to the global economic contraction in 2009. This trend is expected to continue. The IMF predicts that the Chinese and Indian economies will grow by 7.4 per cent and 5.4 per cent respectively in 2014, while growth prospects for the other economies are much bleaker: South Africa at 1.7 per cent, Brazil 1.3 per cent and Russia just avoiding a recession with 0.2 per cent.

The formation of the BRICS group of countries and their objective of strengthening South-South Cooperation has not yet had an impact on Namibia's trade patterns. **Namibia's trade with the BRIC countries** (excluding South Africa) from 2008 until end of June 2014 accounted for 4.3 per cent of the country's total trade value with imports valued at NAD17.7bln and exports of NAD11.5bln. China clearly dominated Namibia's imports from and exports to BRIC countries accounting for 68 per cent and 87 per cent respectively. India as also an important source for imports (26 per cent), but was the destination of only 6 per cent of Namibia's exports to the BRIC group. Were it not for the export of a vessel to Brazil in May 2014 to the tune of NAD436.4mln, exports to Brazil would have been negligible.

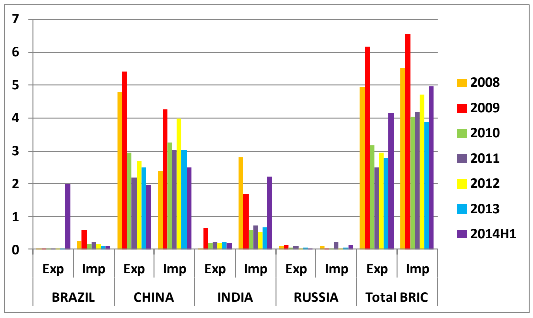
The **Namibia dollar gained** slightly since the beginning of the year **against the Chinese Yuan** (1.5 per cent), but strongly against the **Russian Rouble** (6.5 per cent). It **lost** value against the **Indian Rupee** (3.5 per cent) and **Brazilian Real** (6.6 per cent). Compared to a year ago, the NAD has lost ground against all BRIC currencies. The depreciation is most notable against the Real (9.2 per cent), Yuan (7.6 per cent) and Rupee (6.4 per cent), while the military conflict in the Ukraine and subsequent economic sanctions by Western countries against Russia resulted in a strong depreciation of the Russian Rouble since January 2014.

Gini-coefficient for BRICS countries and Namibia, 1980s to 2009.



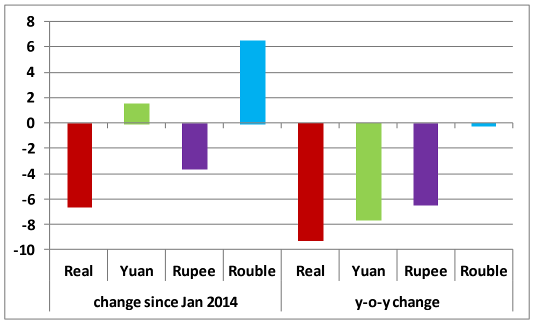
Source: World Bank, World Development Indicators; Namibia: CBS / NSA

Namibia's exports and imports to and from BRIC countries as a share of Namibia's total exports and imports, in per cent, 2008 to first half 2014



Source: Namibia Statistics Agency (NSA)

Exchange rate trends: NAD against BRIC currencies compared to 1 Jan 2014 and the same time a year ago (y-o-y)



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

Crop prices

Futures contracts are contracts between parties to

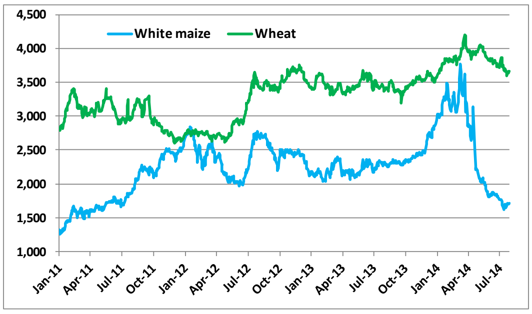
Maize prices dropped on 21 July 2014 to their **lowest levels** since 12 May 2011 and to less than half of the price realised in March 2014. White maize was sold at NAD1,648.00 per tonne compared to NAD1,621.00 per tonne (12 May 2011) and NAD3,765.00 per tonne on 11 March 2014. Prices have dropped by 41.5 per cent since the beginning of the year and by 25.4 per

buy or sell commodities at a specified price and future date, e.g. December.

cent compared to a year ago to NAD1,715 per tonne (30 July 14). Prices are under pressure from two sides: high stock piles owing to a strong harvest in the last season as well as prospects for another record harvest during this season in the USA, the main producer of the grain. The Namibian consumer has benefited somehow from the lower market prices as the price for maize meal was reduced by six per cent in the middle of July.

Wheat prices have come **under some price pressure** recently but are up by 2.6 per cent compared to the start of the year and by 6.2 per cent compared to end of July 2013. Wheat was traded at NAD3,663 per tonne on 30 July, which is 5.1 per cent lower than at the beginning of the second week in July (NAD3,860 per tonne). Conditions in Australia, which is the fourth largest wheat exporter, sent mixed signals. While the northern parts of New South Wales and Queensland have to cope with drier weather conditions the southern parts have received sufficient rainfall. Overall, the impact of El Nino is expected to be rather limited. While wheat prices for delivery in December are slightly down compared to current prices, maize prices are up by about 5 per cent for delivery in December.

Maize and wheat prices in NAD per tonne, Jan. 2011 to July 2014



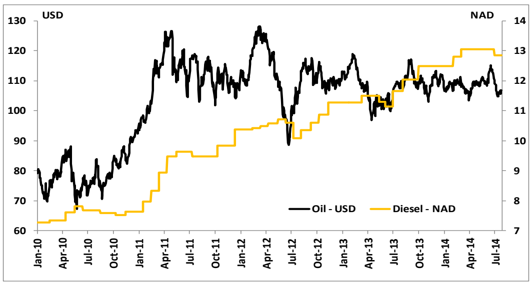
Source: SAFEX, daily data

Commodity prices

Barrel of oil – 158 litre

Oil prices have **dropped** to their **lowest level** since the beginning of November 2013. Oil was trading at USD106.70 per barrel on 28 July 2014, which is almost USD10 per barrel below prices experienced in the middle of June, when fears that islamist militants could advance into the southern oil fields of Iraq pushed up prices. Even prices in NAD terms declined by 2.4 per cent compared to January 2014, but they remain 7.7 per cent up against a year ago. Although prices have eased, oil remains highly susceptible to geopolitical instabilities such as the ongoing conflict in Southern Sudan and the escalating conflict in Libya and the Near East. **Motorists in Namibia** using diesel engines have already **benefited** from lower world market prices for oil that resulted in a NAD0.20 per litre decline of diesel prices. We would expect the Ministry of Mines and Energy to keep prices stable owing to the uncertainties concerning oil supplies in the near future.

Oil (left scale) and diesel prices (right scale), Jan 2010 to July 2014.

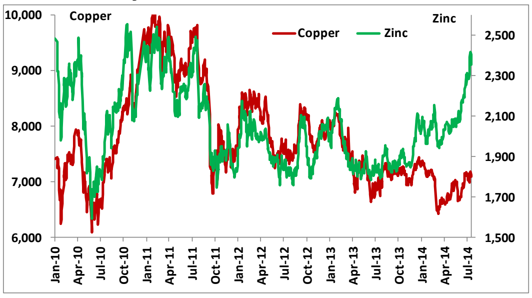


Source: EIA, daily data (Oil), MME: diesel

Price for unprocessed minerals

The **copper price** has **rebounded** from levels below USD6,600 per tonne in June to almost USD7,100 per tonne end of July, the highest prices in five months. The main drivers arfae better economic data from the USA, in particular increasing employment figures; signs that activities in the Chinese manufacturing sector are picking up and a significant drop in inventories. Investors, speculating on higher price expectations for the future, have further contributed to the price increase. Prices are, however, more than USD2,500 per tonne lower than three years ago, when they climbed towards USD10,000 per tonne. Compared to the start of 2014 copper prices are 4.1 per cent lower, but 5.0 per cent up when compared to July 2013. The **zinc price** has showed a **strong performance** so far this year increasing by 13.1 per cent and 31.0 per cent compared to January 2014 and July 2013 respectively. The metal traded at 2,357.50 per tonne on 30 July 2014.

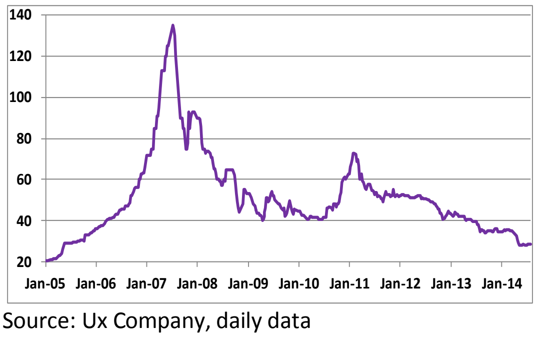
Copper and zinc prices in USD per ton, Jan. 2010 to July 2014



Source: London Metal Exchange, daily data

The **uranium price** remains **depressed** although improving

Uranium prices in USD per pound, Jan. 2005 to July 2014



Source: Ux Company, daily data

slightly from USD28.00 per pound in June to USD28.50 per pound end of July. However, the price is 17.4 per cent lower than at the beginning of the year and than a year ago.

Gold has **benefited somehow** from rising tensions in the Near and Middle East, some parts of Africa and Ukraine. The gold price climbed by 7.5 per cent this year, but lost 2.4 per cent compared to a year ago. The bullion traded at USD1,294.75 per ounce on 25 July 2014. Better than expected economic data in the USA have resulted in expectations the Federal Reserve Bank could raise interest rates earlier than anticipated, which in turn could put pressure on the gold price, since investment in financial markets could become more attractive.

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

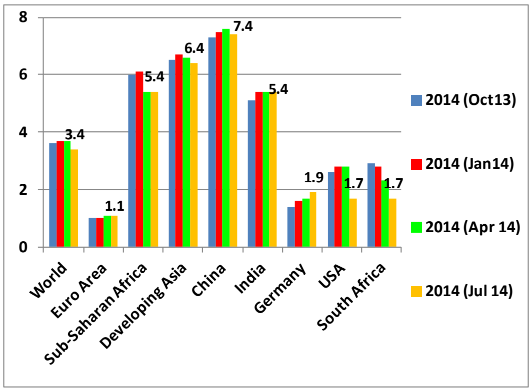
Source: World Gold Council, daily data

Economic growth prospects

IMF - International Monetary Fund

The IMF revised its **global economic outlook downwards** in July 2014 from 3.7 per cent in April to **3.4 per cent**. The prospects for South Africa, down from 2.3 per cent to 1.7 per cent and the USA, down from 2.8 per cent to 1.7 per cent, were in particular significant, while the Euro area remained weak, but stable (1.1 per cent) with Germany growing slightly stronger than earlier expected (up from 1.7 per cent to 1.9 per cent). The **lower growth prospect for the USA** is mainly caused by slower economic activity in the first quarter owing to a harsh and protracted winter and to adjustments in inventories. **Domestic demand in China** is weakening in line with government efforts to slow down credit growth, while on the other hand stimulating growth through infrastructure projects. The main concern is, as mentioned already, increasing geopolitical tensions that resulted in economic growth for Russia being adjusted from 1.3 per cent to 0.2 per cent. In contrast, the **outlook for Namibia** is rather **buoyant** with growth rates ranging from 5.4 per cent (Bank of Namibia) to 6.9 per cent (IJG) mainly on account of robust growth in the construction and the agricultural sectors, with the latter sector rebounding from a low basis owing to last year's drought.

IMF's economic outlook for 2014 since Oct. 2013



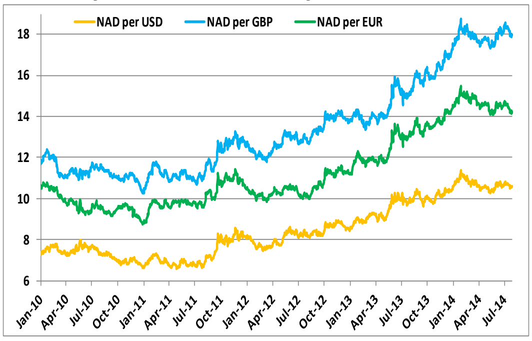
Source: IMF, World Economic Outlook

Financial markets

Exchange rate - Price in Namibia dollars for one unit of a foreign currency

The **Namibia dollar** reversed previous trends and **appreciated slightly** against the Euro (2.3 per cent), while it lost 2.2 per cent and 0.1 per cent of its value against the British pound and USD respectively compared to January. Year-on-year it depreciated by 8.0 per cent (USD), 19.9 per cent (GBP) and 9.0 per cent (EUR) and traded at 10.60, 17.95 and 14.20 respectively. The end of the protracted industrial actions in SA's mining and afterwards steel and engineering sectors could restore investor confidence and stabilise the currency. The **increase in the repo rate** by 25 basis points in July by the South African Reserve Bank had temporarily a positive impact on the exchange rate, because the country becomes a more attractive destination for financial investors. The interest rate increase was mainly caused by **rising inflationary pressure** (6.6 per cent in RSA in June compared to 6.1 per cent in Namibia), while the subdued economic performance and high unemployment rate would have suggested a rather accommodative monetary policy.

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



Source: South African Reserve Bank, daily data

Hanns Seidel Foundation

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