



Economy Watch Namibia – December 2015

Report on Agricultural Census released

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Agricultural Census report released

The Namibia Statistics Agency (NSA) released the Report in November 2015 for the Communal Sector of the Namibia Census of Agriculture that was conducted during 2013/14. The last Census was carried out some 20 years ago and hence there was a need to update the information on agricultural production. The Census collected data on the area under crop production, the output in metric tonnes (mt) for the various crops, the number of people involved, the number of livestock, the use of the crop and many more indicators. The information is important for policy planning, but also for economic statistics such as the National Accounts and Gross Domestic Product.

Crop production dominated by millet – yields significantly higher than expected

Millet is the most-widely planted crop covering an area of 421,213 hectare, followed by maize (34,991 ha) and sorghum (7,043 ha). Yield-wise, maize is leading with 1,600 kg per ha followed by sorghum (1,240 kg/ha) and millet with 970 kg/ha. The yield per hectare for millet and sorghum contrasts with figures from the Ministry of Agriculture, Water and Forestry which reported an average yield of 284kg per ha for both crops in its 2014/15 Medium-term Plan. In addition, Namibia experienced a drought during 2013/14 that would have resulted in a below-average yield. More research and analysis needs to be done to explain this striking difference.

Fewer than one in five farmers use improved seeds

The vast majority of farmers rely on local seeds. 18 percent of millet farmers use improved seeds and 1 percent hybrid seeds. The shares for maize farmers are 16 percent and 1 percent respectively. Of those farmers who apply fertilisers, 77 percent apply organic fertilisers for millet and 75 percent for sorghum compared to 56 percent for maize. Unfortunately, the Census did not ask under Farm Management whether farmers applied Conservation Agriculture or Conservation Tillage methods. This would have allowed for a comparison of average yields between the conservation methods and the traditional method of soil preparation and could have provided some policy directions.

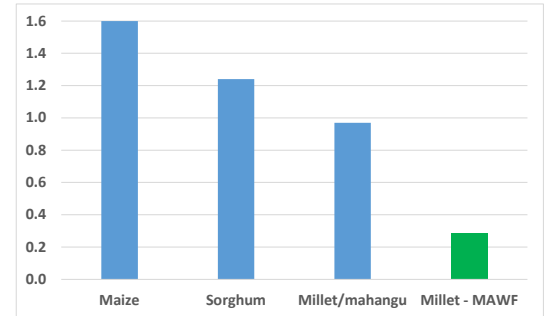
High post-harvest loss for wheat

There is a need to reduce post-harvest losses for all crops, but in particular for wheat. 42 percent of wheat production is lost after harvest compared to 16 percent of sorghum, 11 percent of millet and 7 percent of maize. The high losses for wheat and the differences in post-harvest losses also warrant further analysis.

Monetary tightening vs. quantitative easing

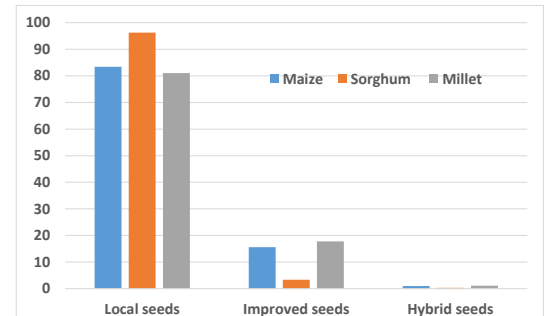
Over the past couple of years we have seen the use of different monetary tools to cope with the aftermath of the global economic crisis. The US Federal Reserve Bank flushed the markets with liquidity during their bond-buying quantitative easing programme. With interest rates at an historical low of 0.25 percent, financial investors looked for greener pastures and invested in emerging markets resulting in the appreciation of currencies such as the South African rand and Namibia dollar. The tide turned against

Yields in metric tonnes per hectare for selected crops.



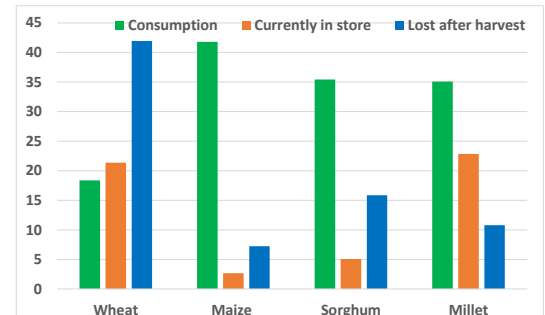
Sources: Authors' calculation based on NSA, Namibia Census of Agriculture 2013/14, Communal Sector Report, MAWF: MTEF 2014/15 p. 221.

Use of different types of seeds by farmers



Sources: Authors' calculation based on NSA,

Selected uses of production in percent.



Sources: Authors' calculation based on NSA.

Monetary tightening in USA has negative impacts on emerging economies

Monetary easing continues in EU

Growth, inflation and monetary policy diverges in BRICS countries

Monetary tightening in RSA could result in further repo rate hikes in Namibia

emerging markets when the Federal Reserve Bank reduced and finally terminated quantitative easing in 2014, which (combined with risk aversion) led to an outflow of money from emerging markets and subsequently to a devaluation of their currencies. While it is taken for granted that the Federal Reserve Bank will increase its interest rate in the middle of December what remains uncertain is the pace of interest rate adjustments over the next months. The interest rate increase in the USA will have consequences for emerging economies such as South Africa and Namibia. It will increase the attractiveness of the US dollar and strengthen it further. This in turn increases the amount of debt and the payment of interests in local currency for USD-denominated bonds, such as the Eurobond. It will furthermore increase upward pressure on interest rates in order to attract hard currencies to Namibia to boost foreign exchange reserves. On the other hand, the weaker local currency could increase the competitiveness of Namibian products on the global market.

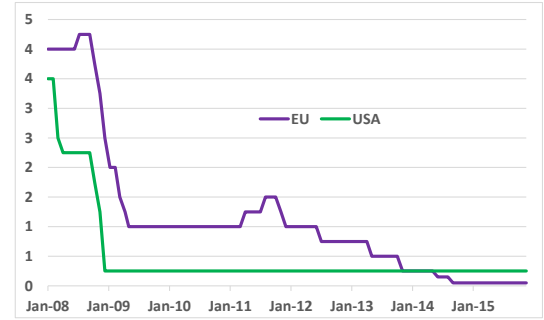
The European Central Bank has now followed the path of the US Fed and started buying bonds to the tune of Euro 60 bln per month in order to stimulate economic growth and achieve its inflation rate target of at least 2.0 percent. On 3rd Dec. the ECB increased the overnight rate – the interest rate applicable to overnight deposits of commercial banks with the central banks – from minus 0.2 to minus 0.3 percent implying that commercial banks have actually to pay the central banks for overnight deposits. The ECB's lending rate remained at 0.05 percent.

Interest rates in BRICS countries also reflect divergent economic growth patterns and economic challenges. While a number of emerging markets tried to stimulate economic growth and competitiveness by devaluing their currencies, other countries tried to contain rising inflation by increasing interest rates. Brazil has increased its interest rate from 10.5 percent to 14.25 percent since beginning of 2014, while China and India curbed interest rates to 4.35 and 6.75 percent respectively over the past two years. Russia tried to stem the outflow of money with higher interest rates first, but then switched to stimulating economic growth through a more accommodative monetary policy stance.

The dilemma of monetary policy is not only reflected in Brazil, which faces both high inflation (9.9 percent in Oct. 2015) and a contraction of the economy by 1.7 percent in the 3rd quarter and 2.6 percent in the 2nd quarter, but also in South Africa. The South African Reserve Bank increased the repo rate by 25 basis points to 6.25 percent in November 2015 in anticipation of rising inflation, while a lower interest rate would have been justified in order to stimulate economic growth estimated at 1.4 percent. The Bank of Namibia has, as expected, increased the interest twice this year from 6.00 to 6.50 percent and might use the tool again.

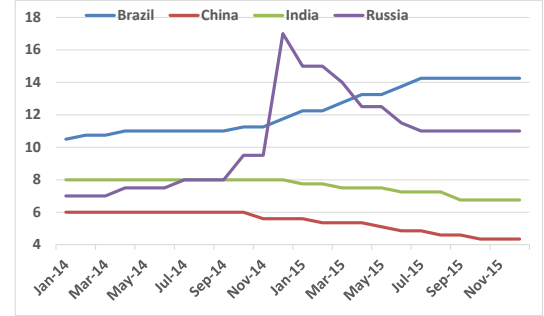
Foreign exchange reserves stood at NAD12.8 bln end of September – almost half of the value of third quarter imports of NAD24.5 bln. – translating into an import cover of roughly six weeks (international benchmarks say it should be at least three months). However, with the issuance of the second Eurobond of USD750 mln, which is 50 percent more than the first Eurobond of USD500 mln

US and Euro zone interest rates, Jan. 2008 to Nov. 2015



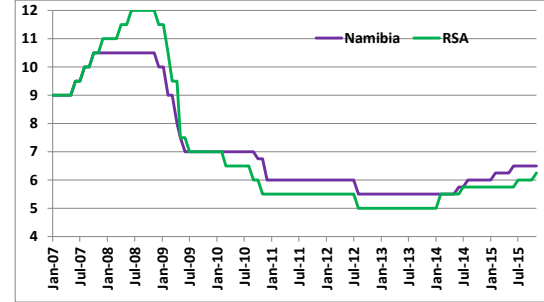
Sources: Various sources

Central Bank interest rates for BRIC countries, Jan. 2014 to Nov. 2015



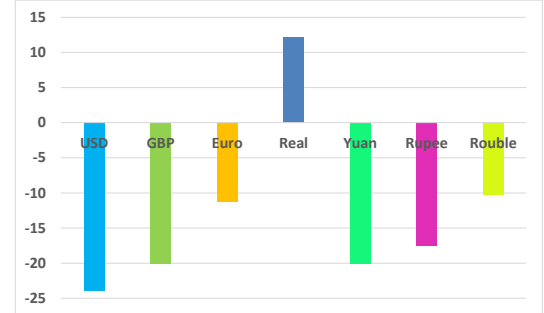
Sources: <http://www.global-rates.com/interest-rates/central-banks/>

Repo rates for Namibia and South Africa, Jan. 2007 to Nov. 2015



Sources: Bank of Namibia and South African Reserve Bank.

Depreciation and appreciation of the NAD against USD, GBP, EUR and BRIC currencies, 3 Jan 15 to 7 Dec 15.



Sources: Authors' calculation based on South African Reserve Bank data.

Foreign exchange reserves received boost...

issued in 2011, foreign exchange reserves received a boost of some NAD10 bln in October and equal now almost three months' worth of imports. While this is good news, it will bring only short-term relief since it does not address underlying causes for the worsening foreign exchange reserves, which include growing import dependency and declining exports as a share of total domestic production. Furthermore, the Eurobonds have to be repaid in USD. The interest rate increase in South Africa and the anticipated interest rate hike in the US in the middle of December could exert further pressure on the BoN to increase interest rates in order to attract hard currencies and reduce the appetite for the importation of consumer goods.

...but underlying causes not addressed

It is expected that the demand for Namibia's traditional exports will remain subdued due to the transition of the Chinese economy and lower growth. Some analysts put actual growth of the Chinese economy as low as 3 percent based on electricity consumption and cargo transported by rail. Unless some of the large mining companies start cutting output, commodity prices are expected to remain at low levels, which will limit the inflow of hard currencies into Namibia. Copper prices recovered only slightly in the second week of December to USD4,592 per tonne from USD4,515 per tonne on 23rd November, which was the lowest price since May 2009. They are more than a quarter (27.8 per-cent) below prices in January 2015. Zinc was trading at USD1,486.50 per tonne on 19 Nov. – the lowest since July 2009 – but also gained some ground since then to USD1,537.00 on 7 Dec. 15. Zinc lost 29 percent of its value since beginning of 2015. Likewise, gold traded at its lowest since October 2009 at USD1,057.40 per ounce on 27 Nov. and has not benefited from geopolitical uncertainties as in the past, when it was considered a safe haven. On the other hand, the decision of OPEC on Friday, 4 Dec., not to set a production target or to even cut production, will benefit oil-importing countries like Namibia through low oil prices and save their hard currencies.

Weak commodity prices will put further strain on forex

Inflationary trends

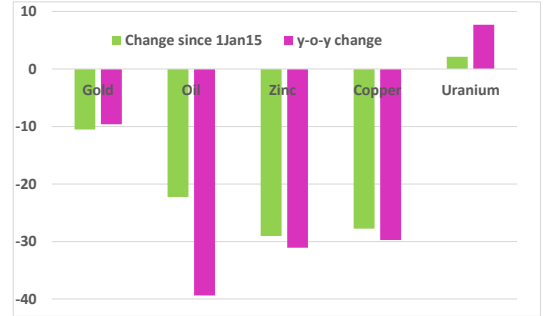
After declining during the first half of 2015, inflation remained fairly stable, varying between 3.3 and 3.4 percent, in the first four months of the second half. While a number of categories showed increases, such as housing, food (see below) and health, transport prices were again on a downward trend and kept overall inflation at bay. Public transport saw only modest price increases since April of on average 0.4 percent, while price increases for new vehicles dropped to 5.1 percent in October. Costs for the operation of transport equipment (mainly fuel) are still 5.7 percent lower than a year ago. Prices for the transport category at large dropped by 2.4 percent compared to October 2014.

Transport inflation remained negative...

Costs for health services increased above the general inflation rate since April 2015 reaching 5.8 percent in October 2015. While the costs for hospital services have not seen any increases since March 2007, costs for outpatient services have gone up by 6.6 percent since March 2015. Costs for medical products declined from March 2014 until March 2015 but have increased by 4 to 6 percent per month since then. The zero inflation rate for hospital services,

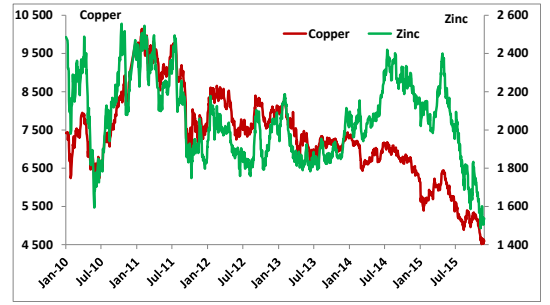
...while prices for health services increased

Commodity price change since 1 Jan. 15 and Year-on-Year.



Sources: Authors' calculation based on various commodity price sources.

Copper and zinc prices in USD per tonne, Jan 10 to Dec 15.



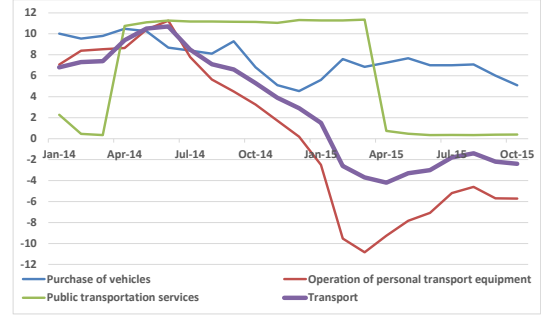
Sources: London Metal Exchange, daily data.

Gold price in USD per ounce, Jan. 10 to Dec. 15.



Sources: World Gold Council, daily data.

Inflation rates for transport services, Jan 14 to Oct. 15



Source: Namibia Statistics Agency, Namibia Consumer Price Index, various editions.

Inflation rates for health services, Jan 14 to Oct. 15

above average

however, suggests that the consumption basket includes public hospitals only and not private hospitals.

Inflation expected to increase in 2016

It is expected that inflation will pick up during 2016. Fuel price increases are expected to enter positive territory even if prices remain at current levels because of the base effect, which will result in positive price increases for the transport sector at large. Even though the impacts of the El Niño effect remain uncertain at this stage there is a probability that it will trigger price increases for food products. These impacts combined are expected to result in upward pressure on inflation.

Wheat and maize prices

White maize and wheat prices have shown some of the highest month-on-month increases this year in November. White maize prices were 10.9 percent and wheat prices 7.0 percent higher on 30 November 2015 than on 30 October 2015. Overall, white maize prices are up by 74 percent compared to beginning of January 2015 end even by 81 percent compared to a year ago. This was caused mainly by a price spike in February, when prices rose by 31 percent from NAD2,097 to NAD2,740 per metric tonne. Compared to maize prices, wheat prices rose rather modestly by 16 percent and 22 percent compared to beginning of the year and a year ago respectively. Wheat was trading at NAD4,541 per tonne on 7th December and white maize at NAD3,695. These are price levels not seen before, with the exception for maize that was trading on a few days in March 2014 above current prices.

Maize and wheat prices reach record highs...

...but bread and cereal prices increased modestly

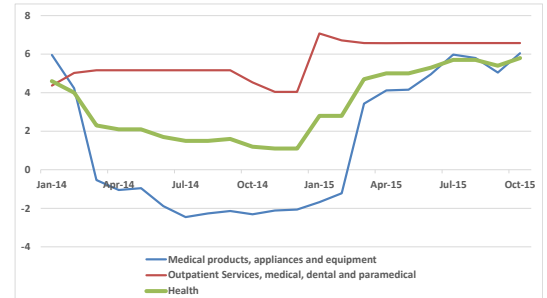
In spite of these price increases on the regional market, the prices for bread and cereals increased only slightly during the first half of 2015, but started to pick up in the second part of the year reaching 6.5 percent in October. Although above average inflation, it was slightly below the price increases for the category of food products of which bread and cereals is a sub-category.

Global wheat and maize production expected to rise

Globally, wheat production estimates were raised slightly in November to 732.98 mln metric tonnes from 732.79 mln for the 2015/16 season based on the US Department of Agriculture. This compares favourably with production figures for the 2014/15 (725.12 mln tonnes) and 2013/14 (715.11 mln tonnes) seasons. Maize production on the other hand is expected to be below previous years' figures, although the forecast was slightly increased from 972.6 mln tonnes (Oct. 2015) to 974.9 mln tonnes (Nov. 2015) for the season 2015/16. The production in 2014/15 of 1,009 exceeded the yield of 2013/14 by 18 mln tonnes.

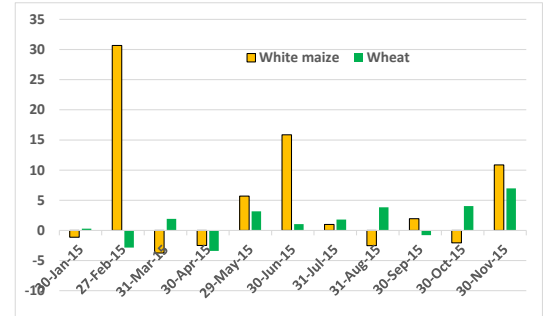
Expected drought not yet reflected in futures prices

Futures prices at SAFEX for white maize are slightly below current prices for January 2016 (NAD3,560) increasing to NAD3,582 for March 2016 but dropping to NAD3,572 for May 2016. Futures prices for yellow maize are even below current price levels. It appears that the expected drought caused by the El Niño effect does not exert significant price pressure on maize prices at this stage. The price trends for wheat however, are different. Futures prices for wheat for March 2016 are up by 2.7 percent (NAD4,664) and by 3.7 percent (NAD4,709) for May 2016.



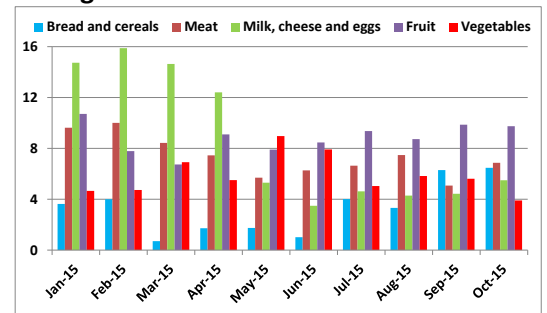
Source: Namibia Statistics Agency, Namibia Consumer Price Index, various editions.

Month-on-month price increases for white maize and wheat during 2015



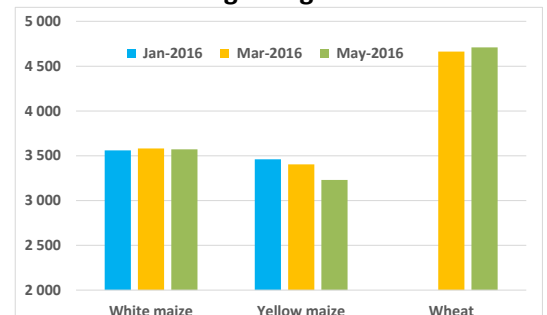
Sources: Authors' own calculation based on daily SAFEX prices.

Inflation rates for selected food products during 2015



Source: Namibia Statistics Agency, Namibia Consumer Price Index, various editions.

Future prices for white maize, yellow maize and wheat for beginning of 2016



Source: SAFEX.



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.