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Economy Watch Namibia – September 2016

The World Economic Forum (WEF) released the **Global Competitiveness Report** (GCR) 2016/17 on 28 September 2016. The IPPR has conducted the executive opinion survey element of the report for Namibia since 2010.

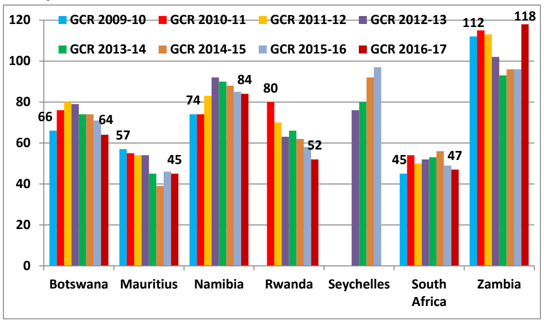
Namibia moved up one place to rank 84 out of 138 countries. Compared to the countries that participated in last year's GCR, Namibia would have moved up to rank 83. Brunei Darussalam (rank 58) and Barbados (rank 72), which did not participate in 2015, have been ranked higher than Namibia in 2016 while Armenia (rank 82), which did not participate this year, was ranked better last year than Namibia. These changes in participating countries influenced the ranking. However, Namibia has not improved her ranking within SADC (rank 4) or within sub-Saharan Africa (rank 5) and has therefore not moved further towards becoming the most competitive economy in SADC. This has been one of the objectives in the Fourth National Development Plan. Namibia's score improved slightly from 3.99 to 4.02 on a scale from one to seven. This compares to 4.29 for Botswana; the next best placed African country on rank 64 and to 4.49 for Mauritius the best placed African country (rank 45).

The GCR consist of three sub-indices (basic requirements, efficiency enhancers, innovation and sophistication factors), twelve pillars, and 121 indicators. Namibia has improved over the years strongly in the third sub-index – innovation and sophistication factors. It moved from rank 104 in 2008-09 to rank 77 in 2016-17. On the other hand, it lost ground in the sub-index 'basic requirements' between 2008-09 (rank 48) and 2013-14 (rank 85), before recovering to rank 75. Besides some fluctuations the country's ranking in the second sub-index remained almost unchanged (rank 94).

Namibia performed best in the two pillars 'macro-economic environment' (rank 27) and 'infrastructure' (rank 33) in 2008-09, but slid to rank 74 and rank 66 respectively over the years. This is mainly home-made as the declining score indicates and not because other countries improved their ranking. In contrast, the score for the fourth pillar 'health and primary education' under 'basic requirements' improved from 4.0 (2008-09) to 4.6 (2016-17). However, this was not good enough to improve the ranking as well, since other countries made greater progress. Namibia lost three places over this period to end up ranked 121. The case of malaria indicates that a focussed approach can bring speedy results. Namibia ranked 121 in 2008-09 in terms of malaria incidence but moved up to rank 36 in 2016-17. On the other hand, the country dropped three places to rank 136 in terms of tuberculosis incidence over the same period. It is, however, acknowledged that these are two very different health challenges that require different approaches and resources. The 'health and primary education' pillar remains Namibia's weakest, followed by 'market size' (rank 113) and 'higher education and training' (rank 110). Namibia's strongest pillars are labour market efficiency (rank 32) and her institutions (rank 39).

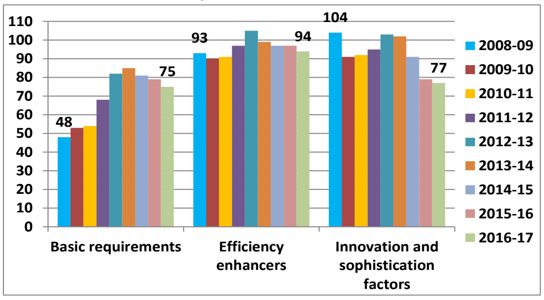
Most progress has been achieved in terms of innovation which falls under the third sub-index. Namibia moved up 37 places over time to rank 74, mainly because more scientists are available and because of stronger tertiary institutions and more investment in Research & Development. The country also improved

Namibia's GCR ranking in regional comparison, 2009-10 to 2016-17



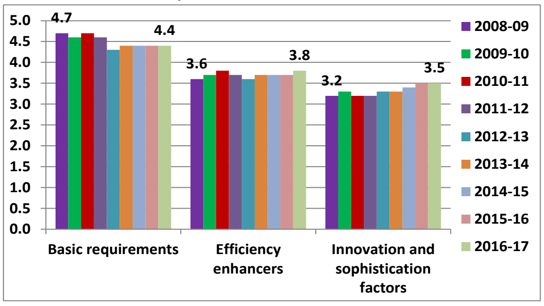
Source: World Economic Forum, Global Competitiveness Reports, various editions.

Namibia's ranking in the three main sub-indices of the GCR, 2008-09 to 2016-17



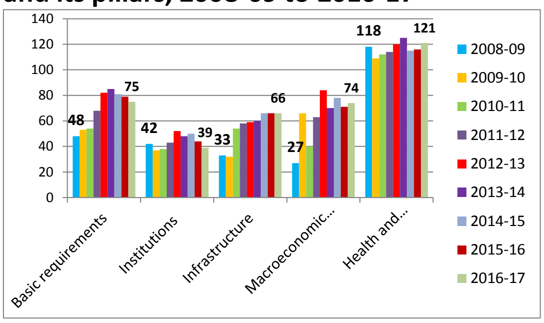
Source: World Economic Forum

Namibia's score in the three main sub-indices of the GCR, 2008-09 to 2016-17



Source: World Economic Forum

Namibia's ranking in the first main sub-index and its pillars, 2008-09 to 2016-17

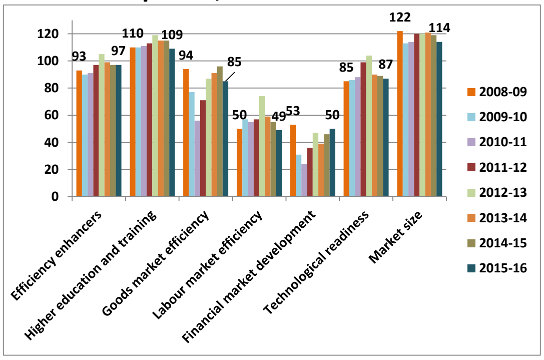


its ranking regarding burden of government regulations by 20 to rank 32. The establishment of the Business and Intellectual Property Rights Authority (BIPA), even though it is not yet a one-stop-shop for business services, might have contributed to the improvement.

Rwanda has shown that rapid improvement of a country's competitiveness is possible: the country moved from rank 80 in 2010-11 to 52 in 2016-17, although it has not made similar progress in terms of political freedom (score of 24 compared to a score of 77 for Namibia in the 2016 Freedom House index). Namibia will need to move even faster if the country is to achieve the objective of the Harambee Prosperity Plan to become the most competitive economy in Africa by 2020. Namibia would need to jump 40 ranks to pass Mauritius as the most competitive economy currently at rank 45. It will require coherent policies and regulations that address weaknesses in Namibia's competitiveness. The restrictive visa requirements for South African business people are relatively easy to reverse. It will be more challenging to bring other policy initiatives in line with the drive for competitiveness, such as the New Equitable Economic Empowerment Framework and its associated Bill and the already gazetted Namibia Investment Promotion Act. The Investment Promotion Act for instance places the power to approve investment in new and existing businesses or to reserve sectors or business activities for certain categories of investors in the hands of the minister, which could create uncertainties among potential investors and result in delays in investment approvals. It could for instance weaken Namibia's current score (4.5) and ranking (77) regarding the business impact of rules on Foreign Direct Investment.

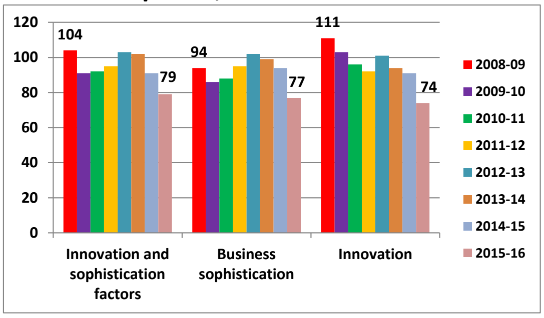
The envisaged forum for public-private sector dialogues, to be chaired by the President, therefore needs to be established as soon as possible in order to institutionalise and improve consultations with the private sector further, coordinate policy initiatives and ensure policy coherence in order to achieve our social, economic and political objectives.

Namibia's ranking in the second main sub-index and its pillars, 2008-09 to 2016-17



Source: World Economic Forum

Namibia's ranking in the third main sub-index and its pillars, 2008-09 to 2016-17

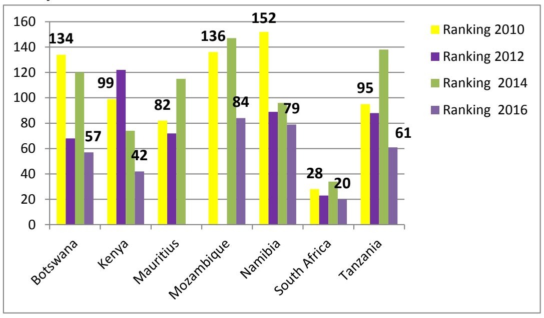


Source: World Economic Forum

The World Bank has recently published its **2016 Logistics Performance Index** (LPI) report that includes 160 countries. The first LPI report was published in 2007 and since 2010 it has appeared on a bi-annual basis. The LPI is based on six components: Customs, Infrastructure, International shipments, Logistics quality and competence, Tracking and tracing, and Timeliness. Namibia's score and ranking has improved over the past six years. The score increased from 2.0 to 2.7 on a scale of one to five, where five is the highest. This lifted the country from almost the bottom of the table (rank 152 out of 155 in 2010) to a place in the midfield (rank 79 in 2016 out of 160 countries). Using a weighted average of the past four LPIs, Namibia is placed 89th. Despite the improvement, it is lagging behind other countries in the region, such as Kenya, South Africa and Tanzania. In contrast, Namibia's performance is better than Mozambique's (rank 84), which could become a further competitor for logistics services at the east African coast serving land-locked countries in the region.

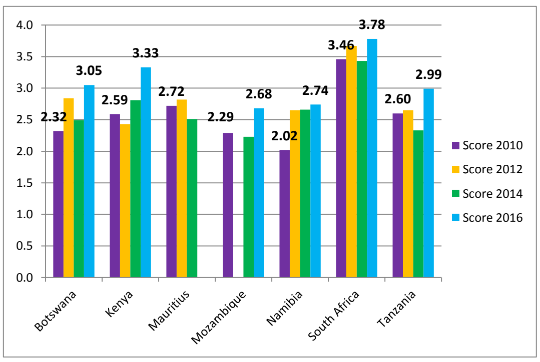
Namibia's strengths are based on its existing **infrastructure,** which is ranked 64th globally. The ranking illustrates that investment in infrastructure pays off, since the country ranked 148 in 2010. Infrastructure is not limited to transport infrastructure but includes, among others, communication infrastructure. On a global scale, railway infrastructure has received the lowest LPI rating. Although the report does not provide detailed ratings for Namibia, it can be safely assumed that Namibia is no exception. More needs to be done than simply rehabilitating the most dilapidated parts of the railway network. Among others, some bridges need to be upgraded to comply with SADC axle-load standards.

Namibia's LPI ranking in regional comparison, 2010 to 2016



Source: World Bank, The Logistics Performance Index

Namibia's LPI score in regional comparison, 2010 to 2016



While East Africa and Nigeria are moving from the narrow gauge to the standard gauge, such a discussion is not taking place in Namibia. A decision is needed, even within the region, before major rail extension projects get underway. At the beginning of September, Botswana, Zimbabwe and Mozambique re-confirmed their commitment to the Port Techobanine Heavy Haul Rail Project. This could cast doubts over the speedy implementation of the Trans-Kalahari Railway line.

Namibia also made major progress in terms of **customs management** and **timeliness**. Strong coordination at borders is required between the agencies involved in the inspection of imported or exported goods, such as between officials responsible for Custom & Excise and those responsible for sanitary and phytosanitary controls as well as those responsible for the country's security.

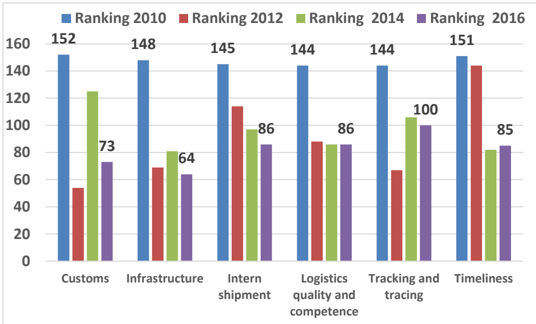
Although Namibia has progressed in terms of **logistics quality and competence**, it appears that progress has stalled over the past years. In order to achieve our NDP4 objective of becoming a logistics hub, this area needs more support through the involvement of institutions of higher learning, such as the Namibian-German Centre for Logistics, and through attracting international expertise and skills to the country.

Since 2014, the World Bank included questions relating to the demand for **environmental friendly supply chain services** in the survey. Namibia's score has remained virtually unchanged at 1.9 compared to a global average of 2.1. The scores of countries in the region such as Botswana, Lesotho and South Africa have dropped, although South Africa (score of 2.7) is still ahead of Namibia and the global average. Namibia's score indicates that only few local and regional customers demand environmentally friendly logistics services. However, this is expected to change with the promotion of the Sustainable Development Goals. Moreover, international companies involved in global value chains might place more emphasis on these services. If Namibia wants to succeed in becoming part of global value chains, logistics service providers need to be pro-active and offer sustainable logistics services.

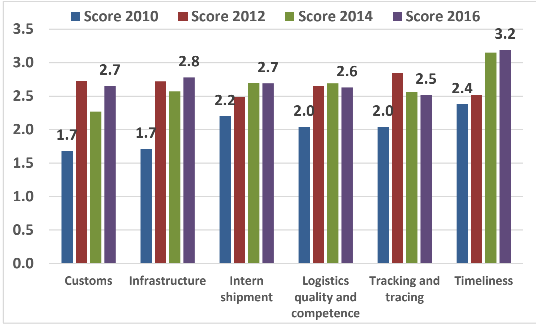
The **zinc price** has **recovered well** during 2016 after dropping by 26 percent in 2015 to USD1,599.50 per tonne on 31 December 2015. Zinc was trading at USD2,320 on 27 September 2016, up by 45 percent compared to 31 Dec. 2015 and by 41 percent compared to a year ago. The zinc price has been supported by mine closures that resulted in a drop in output and also in inventories. The currently high price level combined with a high price for silver, which is often found as a by-product in zinc mining, could result in the re-opening of smaller mines in particular and subsequently in price adjustments. While also declining by 26 percent during 2015 to USD4,701.50 per tonne, the **copper price** has made only **modest gains** in 2016 to USD4,773.00 per tonne.

The **uranium prices declined** further during 2016 after losing about 3.5 percent in 2015. Uranium was trading at USD24.75 per pound at the end of Sept. 2016, the lowest price since 2 May 2005 when it was trading at USD24.00 per pound. The uranium price dropped by 27.7 percent this year and is 33.6 percent lower than in September 2015. The low prices could result in further adjustments to uranium production at the two uranium mines currently operating in Namibia and in further cost-saving measures. Although the Husab uranium mine will commence production in October, it remains to be seen how quickly the mine moves towards full production. Since Husab can become one of the biggest uranium mines in the world, once in full production, it will affect global supply and hence prices.

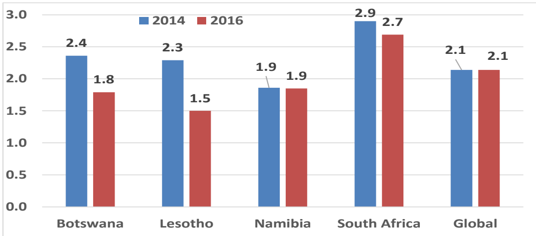
Namibia's LPI ranking in the sub-indicators, 2010 to 2016



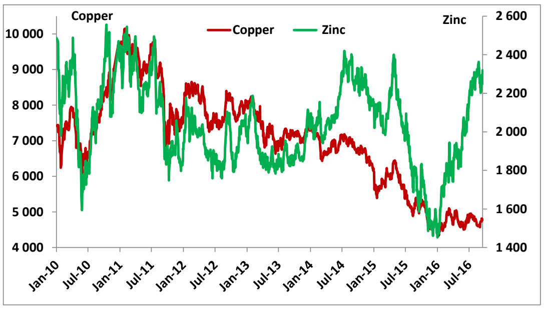
Namibia's LPI score in the sub-indicators, 2010 to 2016



Country's LPI score in environmentally friendly supply chain services, 2010 to 2016

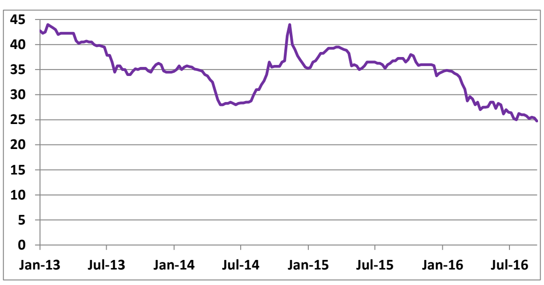


Zinc and copper prices in USD per tonne, Jan 2010 to Sep 2016



Source: London Metal Exchange, daily data

Uranium price in USD per pound, Jan 2013 to Sep 2016



Source: Ux Company, weekly data

The **gold price** also **recovered strongly** during 2016 as the bullion is considered a safe haven. The gold price has been aid by a number of global uncertainties including monetary tightening in the US and negative interest rates elsewhere, the state of the Chinese economy, political uncertainties in the US, the impact of the Brexit decision on the UK and the EU, and a number of upcoming European elections as well as the referendum in Italy. The gold price increased by 26.3 percent this year to USD1,338.65 per ounce on 23 September 2016 and is 18.3 percent higher than a year ago.

Oil prices have **recovered** this year and were up by 27.1 percent on 26 September compared to January 2016, and slightly up (1.2 percent) compared to a year ago. Oil was trading at USD46.61 per barrel after hitting almost the USD50 per barrel mark end of August. Supply has been on the increase in recent weeks. Based on recent reports, Russian **oil output** is expected to increase by 400,000 barrels per day in September 2016 compared to August 2016 and will reach a new record level of 11.1 million barrel per day. Likewise, Saudi Arabia's output increased by almost 500,000 barrels per day between January and August 2016 to a record of 10.69 mln barrels per day. Furthermore, Libya has started to export oil again – it remains to be seen for how long given the fluid security situation in the country – and Nigeria is set to increase output. In addition, Iran will continue to increase output. OPEC reached an agreement on 28 September to curb output by 700,000 barrels per day, which resulted in an immediate price increase to some USD49.00 per barrel. Higher prices, however, could encourage producers not only in the USA to restart or increase production.

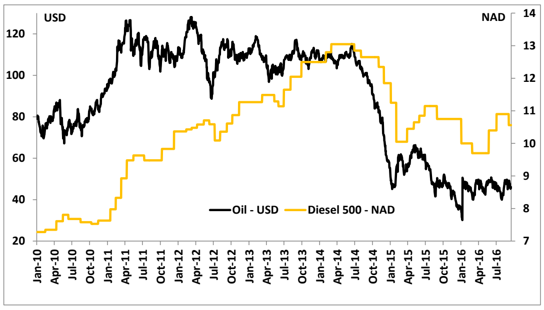
Fuel prices remain between 0.6 percent (petrol) and 1.8 percent (diesel) **lower** than in January after the Ministry of Mines and Energy reduced prices by NAD0.46 (petrol) and NAD0.34 (diesel) per litre at the beginning of September. Petrol is sold at NAD10.75 (petrol) and NAD10.66 (diesel 50ppm) per litre in Windhoek. Current fuel prices are below prices last year in September, which will have a positive impact on the inflation rate.

Wheat and **maize prices** have **declined** after peaking at the end of May 2016 when white maize was trading at NAD5,030 per tonne and wheat at NAD5,171 per tonne. The price for white maize dropped by 27 percent to NAD3,647 per tonne and the wheat price by 19 percent to NAD4,130 per tonne by 22 Sep 2016. White maize prices are still 14 percent higher than in September 2016 while wheat prices are more or less on par. High crop prices have resulted in double-digit inflation rates for bread and cereals since March 2016 (15.2%) that eased slightly to 14.0% in August 2016.

Gold price in USD per ounce, Jan 2015 to Sep 2016

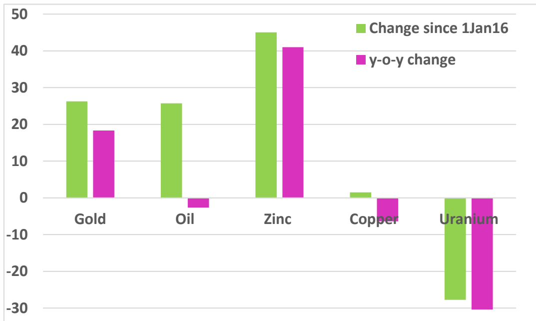
Source: World Gold Council, daily data

Oil (USD per barrel) and fuel (NAD per litre) prices, Jan 2010 to Sep 2016



Source: EIA (oil) and Ministry of Mines and Energy (fuel)

Commodity price change since Jan 2016 and since September 2015 (year-on-year) in percent



Source: Authors' own calculation based on sources mentioned above

Matter of Fact

We reported in the Economy Watch – August 2016 about the latest National Accounts and the deflator used to calculate the real Gross Domestic Product and the economic growth rate. We would like to thank all who responded to our comments and provided further explanations and clarifications. In a nutshell: There are three deflation techniques, of which the double deflation technique is the most accurate. However, it requires a substantial amount of data since the output and the various inputs companies use in the production process are deflated by different price deflators. Therefore, volume or price indices are applied to calculate the real value of output. NSA uses mainly volume indicators that do not necessarily reflect price movements. The final economic growth rate depends on the technique used and hence the availability of 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.