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Economy Watch Namibia – October 2017

The World Economic Forum (WEF) released the Global Competitiveness Report (GCR) 2017-18 in September 2017. The GCR is based on the Executive Opinion Survey that is conducted at the beginning of each calendar by local institutions on behalf of the WEF. The Institute for Public Policy Research has conducted the survey in Namibia since 2010.

After steady improvements in the ranking from rank 92 in 2012-13 to place 84 last year, **Namibia fell back again to rank 90** in the GCR 2017-18. Some other Southern African countries also lost in competitiveness: Rwanda moved down six places to rank 58, South Africa dropped by 14 places to rank 61 and Mozambique lost three places to end up at rank 136 out of 137 countries. Mauritius and Zambia maintained their rankings at 45 and 118 respectively, while Botswana moved up one rank to 63 and Zimbabwe two ranks to 124. Seychelles has continuously lost ground since 2012-13, when the country ranked 76, and is now placed at rank 107.

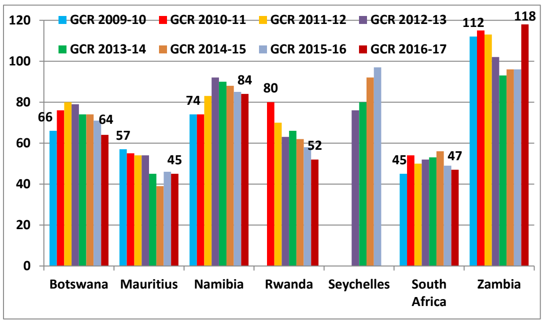
Namibia's loss in competitiveness is not due to a worsening overall performance in the indicators, but is down to other countries' improved performances. Namibia has consistently scored 4.0 out of 7.0 since 2011-12. The country's score remained also fairly stable within the three main pillars, namely Basic Requirements with a score of 4.3 compared to 4.4 in the previous year, Efficiency Enhancers with an unchanged score of 3.8, and Innovation and Sophistication Factors with an unchanged score of 3.8. Basic Requirements account for 40% of the total score, Efficiency Enhancers for half and Innovation and sophistication factors for 10%.

However, within these three pillars some of Namibia's **previous strengths have eroded over the years**. The country scored very well in terms of infrastructure in 2009-10 with a score of 4.8 making it the 32nd most competitive country globally. The score dropped to 4.2 this year and consequently Namibia is at rank 67. The decline has been even more severe regarding the macro-economic environment, where Namibia ranked 27 with a score of 5.7 in 2008-09. After a drop by 33 places since 2016/17, Namibia now holds rank 107 with a score of 4.0. Rising government debts and inflation rates have been the main drivers for the steep drop.

Namibia also slipped places from 79 to 84 in the sub-pillar Goods Market Efficiency, mainly because of the length it takes to start a business. The number of procedures required to start a business remained at ten placing Namibia on rank 118 out of 137 countries. The launch of NamBizOne in May 2017 as a single window for business registration is expected to yield some progress in the coming years if the systems of more institutions are integrated.

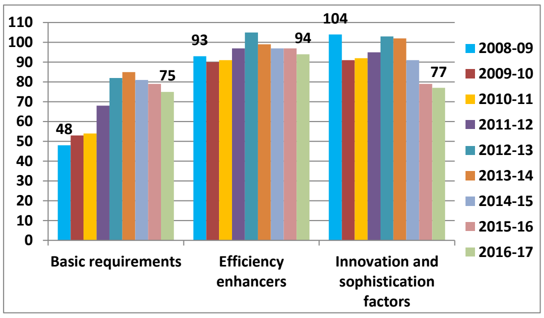
However, **there are also areas of notable improvement**. One of Namibia's weaknesses has always been the area of health and primary education. The reduction in the business impact of HIV/AIDS as well as the number of tuberculosis cases resulted in a better score (4.8 compared to 4.6) and a better ranking by 11 places to 110. The additional airlines serving the routes to and from

Competitiveness ranking for selected SADC countries and Rwanda.



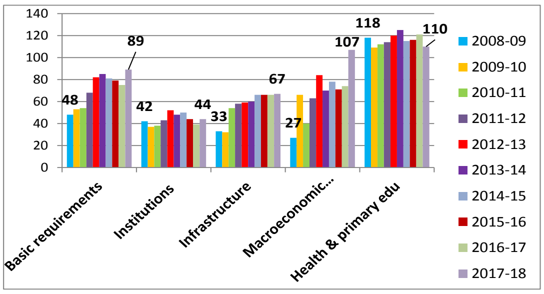
Source: World Economic Forum, Global Competitiveness Report, various years

Namibia's ranking in terms of the three main pillars



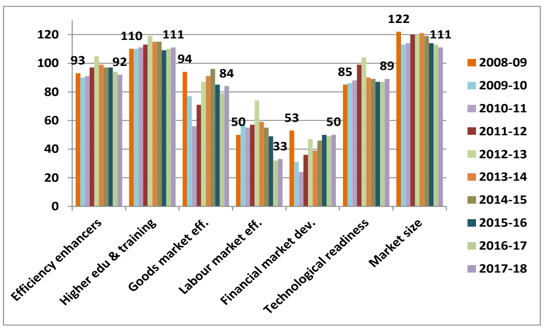
Source: WEF, GCR, various years

Ranking in the four pillars of 'Basic Requirements'



Source: WEF, GCR, various years

Ranking in the pillars of 'Efficiency Enhancers"



Windhoek led to a slight increase in the number of airline seats per week and a gain of three ranks to 102.

Access to finance tops the list of factors seen as **most challenging** by business people followed by an **inadequately educated workforce** and an inefficient government bureaucracy. **Corruption and a poor work ethic** in the national labour force follow suit in places five and six. Corruption is rated as a bigger challenge this year (score of 10.6) than last year (score of 7.2). Crime and theft also moved up ranks from a score of 3.0 (2016-17) to 4.9 (2017-18). In contrast, despite the water crisis experienced last year, infrastructure was regarded as less of a challenge this time (score of 4.1) than a year ago (score of 4.6).

Increased **investment in Vocational Education and Training**, as well as the launch of an **apprenticeship programme**, are expected to yield positive results regarding the skilled workforce over the next years. The current fiscal challenges should be viewed as an opportunity to do business differently and review current government functions and structure with the aim to streamlining bureaucratic processes and implementing e-government, which would strengthen our competitiveness. Ongoing fiscal and macro-economic consolidation needs to be balanced in order to increase investment in vital infrastructure, such as water, electricity and transport. Independent Power Producers have demonstrated that the **private sector could play an important role** in the provision of infrastructure. Its role can be expanded within the energy sector, but also beyond in order to reduce the financial burden on government coffers.

However, achieving the 6th goal of the Harambee Prosperity Plan, namely to become the most competitive economy on the continent, would require more concerted efforts by both the public and private sector to address the main bottlenecks.

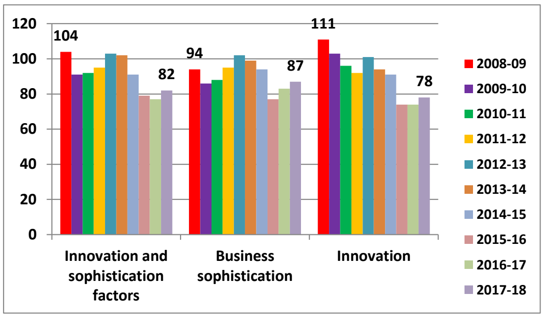
The International Monetary Fund (IMF) released its latest update of the World Economic Outlook in October 2017. The **global outlook has improved** continuously since the beginning of the year. Growth for 2017 is projected now at 3.6% - up from 3.4% in January 2017 – and for 2018 at 3.7%, which is slightly better than the 3.6% anticipated in January. There is a notable uptick in economic activity expected in the Eurozone from 1.6% in January to now 2.1% driven in particular by firmer growth in Germany – up from 1.5% to 2.0%. The improved business climate in Europe is expected to continue next year with growth forecasts adjusted upward from 1.6% to 1.9% and from 1.5% to 1.8% for the Eurozone and for Germany respectively. In contrast, although projections are slightly better now than they were in July, growth for the USA is estimated at 2.2% for 2017 and 2.3% for 2018, which is below projections in January of 2.3% and 2.5% respectively. In contrast to expectations, annual growth in the USA for the third quarter 2017 increased to 3.1% despite the hurricanes that resulted in major disruptions of oil production and other economic activities in the affected states. The third quarter estimates might be up for revision though once the full extent of the impact of the hurricanes is known.

Economic growth for India has also been revised downward to 6.7% from 7.2% (2017) and 7.7% to 7.4% (2018), while China's economy is expected to grow stronger than initially anticipated. Economic activities in China for 2017 were expected to expand by 6.5% in January 2017 and by 6.0% in 2018. The latest projections indicate growth of 6.8% and 6.5% for 2017 and 2018 respectively.

Sub-Saharan Africa's economies have not gained momentum again with growth reduced to 2.6% from 2.8% in 2017 and 3.4% instead of 3.7% in 2018. South Africa's economy is almost stagnating at 0.7% (2017) and projected to

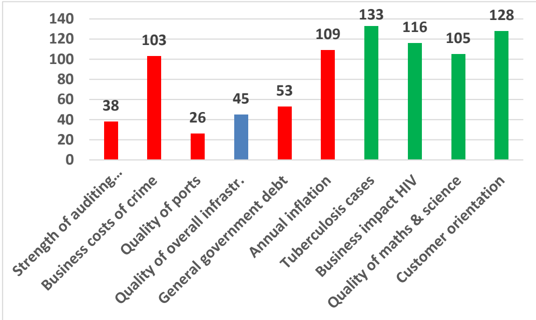
Source: WEF, GCR, various years

Ranking in the two pillars of 'Innovation and Sophistication'



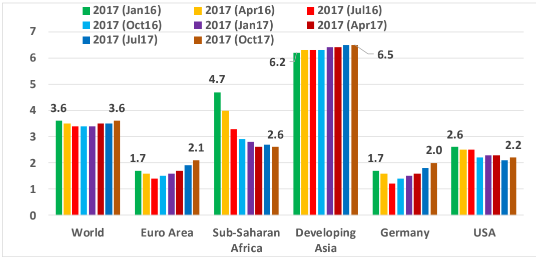
Source: WEF, GCR, various years

Ranking in selected components (red-deterioration, green improvement, blue unchanged) – 2017/18 compared to 2016/17



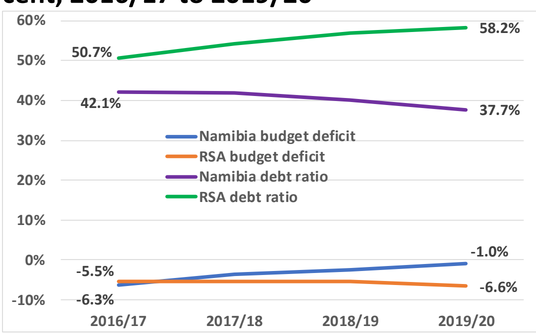
Source: WEF, GCR, various years

Economic growth projections for selected countries and regional groupings.



Source: International Monetary Fund, World Economic Outlook

Budget deficit and total public debt as a ratio of GDP for Namibia and South Africa in per cent, 2016/17 to 2019/20



Source: Ministry of Finance, Medium-term Expenditure Framework (Namibia), Forecaster Ecosa cc (South Africa) grow slowly over the next three years - 1.1% (2018), 1.5% (2019) and 1.9% (2020). Part of it can be explained with the prevailing political uncertainties that affect private sector investment negatively. **Lower economic growth projections** for South Africa have a couple of **implications for Namibia**. They are likely to reduce demand for Namibian goods (such as beef and beer) and services (such as tourism).

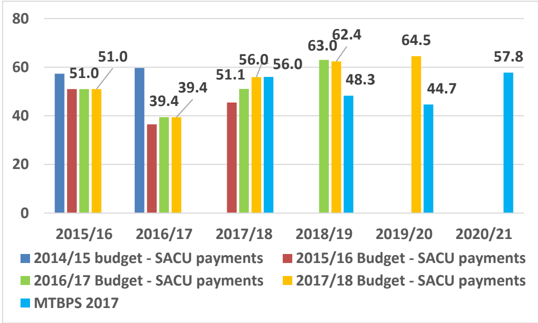
Moreover, lower than projected economic growth in South Africa has led to an **adjustment in revenues** that are expected to be lower than expected at the beginning of the year – ZAR1,214.7 instead of ZAR1,265.5 billion – resulting in a shortfall of ZAR50.8 billion. Among others, revenue from customs duties are projected at ZAR47.2 billion down from ZAR52.6 billion translating into a shortfall of ZAR5.4 billion. This is in addition to a reduction in customs duties for 2016/17 by ZAR1.9 billion.

The South African government **expected SACU payments** of ZAR62.4 billion and ZAR64.5 billion in 2018/19 and 2019/20 respectively in the budget tabled beginning of 2017. These projections were also significantly revised downward in the Mid-term Budget Policy Statement to ZAR48.3 billion and ZAR44.7 billion respectively, before they are projected to rise to ZAR57.8 billion in 2020/21. All SACU member states will have to share this shortfall. Customs revenue from SACU's Common Revenue Pool (CRP) are shared among SACU member states according to their share in intra SACU imports. Hence, the exact amount due to each member state is only known once the total of customs revenue and the import share is known. Therefore, adjustments are made in the following year to payments received in the previous year.

Namibia's imports from SACU dropped from NAD30,033 million in the first half of 2016 to NAD27,277 million in the first half 2017. Because of the budget cuts and the contraction in the construction sector, it is expected that imports in 2017 remain below the total value of imports in 2016 – NAD62,897 million. Namibia's receipts from the SACU CRP could therefore come under pressure from two angles – declining inflows into the CRP and Namibia's declining imports from other SACU member states, mainly from South Africa.

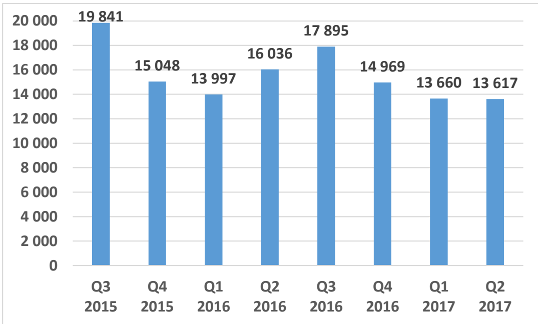
Hence, **Namibia cannot expect budgetary relief from SACU transfers**. Weaker than expected domestic GDP data for the second quarter 2017 imply that government revenue from domestic sources remain constraint. Since capital expenditure cannot be cut further, but need to be increased again in order to stimulate private sector investment, Government needs to review its current structure and functions and start the debate about necessary public sector reform.

SACU payment projections in ZAR billions



Source: National Treasury RSA, Estimates of National Expenditure, various years

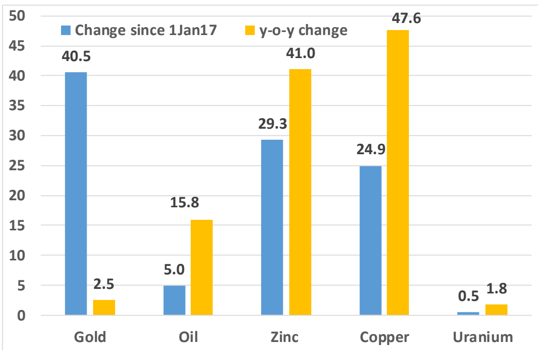
Value of Namibia's imports from SACU, in NAD millions



Source: Namibia Statistics Agency, Quarterly Trade Statistics

Some **commodity prices have recovered** strongly this year, which should bode well for commodity exporters including Namibia. **Copper and zinc** prices were 47.6% and 41.0% higher on 26 October 2017 than a year ago and have increased by 24.9% and 29.3% respectively since beginning of January 2017. Zinc prices maintained the upward movement despite mining companies announcing the reopening of mines that were put on care and maintenance during the period of low prices. Zinc was trading at USD3,369.50 per tonne on 4 October 2017 – the highest price since 4 July 2006 (USD3,371.00 per tonne). Copper prices peaked at USD7,073.00 per tonne so far this year, which is the highest price since 22 August 2014 (USD7,087.50 per tonne). However, Namibia will not benefit to the full extent from the improved price environment, because the Skorpion Zinc mine has embarked on an extension programme to increase the life span of the current mine. This will limit the current output level.

Commodity price movement compared to January 2017 and end of October 2016, in per cent.



Gold prices surged by 40.5% so far this year to recover lost ground since last year. Gold was trading 2.5% higher than a year ago. Gold broke the USD1,300 per ounce barrier end of August and climbed to 1,346.30 (8 Sep. 2017), the highest price for more than a year. It was trading at USD1,350.05 per ounce on 16 Aug. 2016. Gold prices have benefited from current policy uncertainties in the USA including monetary policy since the term of the current head of the Federal Reserve Bank is coming to an end. Geopolitical tensions in particular between North Korea on one side and the USA and her allies on the other have further aided the gold price recovery.

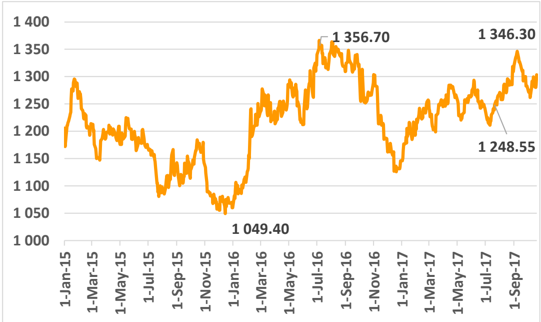
Oil prices have continued to move upward this year and are 5.0% and 15.8% higher than in January 2017 and end of October 2016. Despite scepticism in the beginning, oil price cuts have had an impact on the supply glut and are expected to be extended well beyond March 2018. Both OPEC and non-OPEC producers (most importantly Russia) have so far kept to the agreement in spite of increasing tensions on the Arabian Peninsula between Saudi Arabia, United Arab Emirates, Bahrain and Egypt on the one side and Qatar on the other over, among others, allegations of Qatar's support for terrorism. Tensions also remain between the two big rivals in OPEC - Saudi Arabia and Iran – that seek to increase their influence in the region. The hurricanes that forced a shut-down of oil production in the Gulf of Mexico temporarily contributed to higher oil prices as well that touched on the USD60 per barrel for Europe Brent end of September. Prices have declined slightly since then to USD57.69 per barrel on 23 October. Slightly higher average oil prices for October so far (USD56.75 per barrel) compared to September (USD56.15 per barrel) combined with a slightly weaker domestic currency vis-à-vis the USD – NAD13.64 per USD in October versus NAD13.14 per USD in September – could result in fuel price increases in November, which in turn could lead to a higher inflation rate. The fuel price increase in September by NAD0,30 per litre was the main driver for the uptick in the inflation rate – 5.6% for September compared to 5.4% for August.

Uranium prices remained almost unchanged at USD20.15 per pound on 23 Oct. 2017 compared to USD20.25 per pound and USD20.00 per pound at the beginning of the year and end of October 2016 respectively. Mineral ores including uranium used to exceed the value of diamond exports between 2008 and 2010, but have fallen since to second place again. If prices prevail at this level, even though contract prices are higher than spot market prices, increased production at Husab mine will not change this ranking.

White and yellow maize prices have remained **far below price levels** seen at the beginning of the year owing to much better rainfall this year than last year and consequently a bumper harvest in South Africa. White and yellow maize prices dropped by 46.3% and 36.2% respectively since the beginning of the year – similar to declines since end of October 2016 (47.6% and 35.9% respectively). However, prices are on an upward trend compared to end of September in line with higher futures prices at the Southern African Futures Exchange (Safex). Compared to 26 September 2017 prices have recovered by 7.0% and 5.5% for white and yellow maize respectively. The crops were trading at ZAR1,980 per tonne and ZAR2,083 per tonne. In contrast, wheat prices have increased since the beginning of 2017 (7.3%) and compared to the same time last year (3.2%). **Futures prices for maize and wheat indicate** that the **upward movement** could extend well into the year 2018.

Source: Authors' calculations based on World Gold Council, Energy Information Administration, London Metal Exchange and Ux Company data.

Gold price in USD per ounce



Source: World Gold Council, daily data

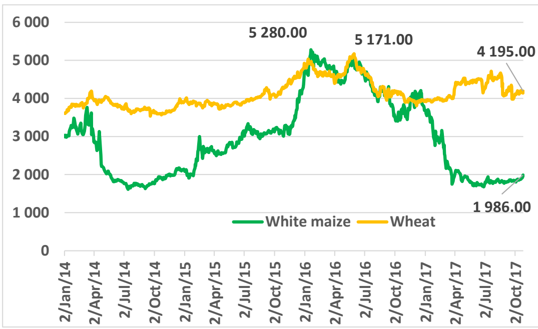
Oil price in USD per barrel

Source: Energy Information Administration, daily data

Uranium prices in USD per pound

Source Energy Information Administration, weekly data

White maize and wheat prices in ZAR per tonne. Jan. 2014 to Oct. 2017



Source: Safex, daily data

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.