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Economy Watch – November 2018

The World Economic Forum (WEF) and the World Bank (WB) have released reports focusing on global **competitiveness** and the **ease of doing business**. These reports are **relevant for Namibia** since international investors use them to gain better insights into potential investment destinations, but also because targets in Namibia's main policies (Harambee Prosperity Plan, NDP5, Growth at Home, etc.) refer to the results of these reports. According to the HPP, Namibia aims to be the most competitive economy in Africa by 2020; according to NDP5, Namibia is seeking a score of 4.2 in the Global Competitiveness Index, while the Growth@Home policy sets targets of Namibia being the most competitive economy in SADC by 2020 and moving up ten ranks in terms of starting a business. The Minister of Finance stressed the need to improve the country's competitiveness in his recent Mid-Year Budget Review. Despite the emphasis on improving the competitiveness, **Namibia's rankings are in decline** and remain a long way off the government's stated ambitions.

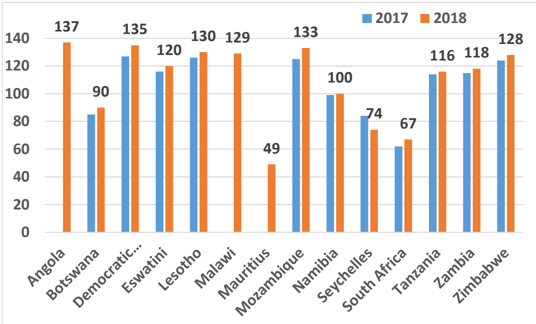
This year WEF revised **the Global Competitiveness Index** (GCI) methodology and aligned it to the challenges expected from the **Fourth Industrial Revolution**. Although the number of pillars remain the same – twelve – they have been reorganised and renamed, while the **number of indicators** for the pillars was **reduced** from 121 to 98 with 64 of them being new indicators. Furthermore, the **new scores** range between 0 and 100. Therefore the results for 2018 are not comparable to the previous rankings and scores. However, the WEF calibrated the values for 2017. According to this revised approach, **Namibia slipped one rank** to 100 out of 140 in 2018 compared to being placed 99 out of 137 in 2017, despite a marginal **improvement by 0.3 to 52.7** in the country's score. The country **ranks fifth within SADC**, **sixth in Sub-Saharan Africa** and **tenth in Africa**. Ten out of 15 SADC member states dropped in the ranking – Madagascar was not included in the survey.

Namibia performed fairly well in three pillars – labour market (rank 39), financial systems (47) and institutions (51), but **lagged behind** in terms of market size and business dynamism (both rank 121), health (117) and ICT adoption (105). Namibia **performs strongly** on indicators such as labour tax rate (rank 8), road connectivity (10) and non-performing loans (19). In contrast, the country is **ranked almost at the bottom** of the 140 countries in terms of hiring foreign labour (rank 136) and starting a business (135), homicide rate (130) and GDP (120).

Namibia also **lost ground** in the **Doing Business** (DB) Index moving down one rank to 107 out of 190 countries in the DB2019 report. Namibia is **ranked seventh within SADC**. Namibia **made progress** in terms of enforcing contracts due to reforms in 2017 and 2018 **improving by 40 places** from rank 98 in the DB2017 to 58 in the DB2019. Similarly, the country improved by 24 places regarding dealing with construction permits from rank 107 (DB2018) to rank 83 (DB2019) due to a better rating of the quality control of buildings.

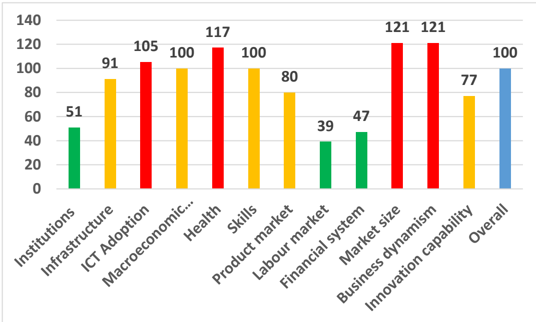
Despite moving up one rank to 174, **registering property** remains a serious challenge as does starting a business (rank 172 out of 190). Namibia ranks

Ranking of SADC member states in the GCI



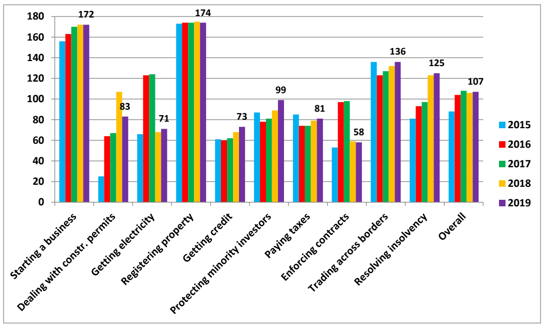
Source: WEF, Global Competitiveness Report 2018

Namibia's ranking in the twelve pillars of the GCI



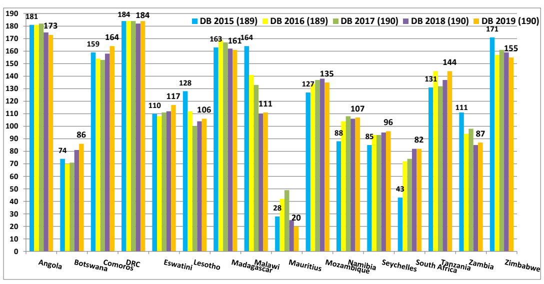
Source: WEF, GCR 2018

Namibia's ranking in the ten pillars of Doing Business – out of 190 countries



Source: WB, Doing Business 2019

Global ranking of SADC member states in Doing Business – out of 190 countries



Source: WB, DB various years

14th out of 16 SADC member states for starting a business. For the past eight years, it has taken 66 days to start a business in Namibia compared to five days in Mauritius and four days in Rwanda. The creation of the Business and Intellectual Property Authority (BIPA) has not resulted in any improvement.

Namibia also **slipped places** in terms of trade across borders from 123 (DB2016) to 136 (DB2019) and ranks **ninth out of 16** SADC member states. It requires 90 hours to comply with export documentation and three hours to comply with import documentation in Namibia compared to one hour each for import and export documentation in Lesotho. Since Namibia has scored the same values in the indicators used to determine the ranking for this pillar since DB2016, the poorer ranking is due to other countries improving their scores. If Namibia wants to achieve her ambition **to become the logistics hub** of Southern Africa, the administrative processes involved in international trade need to be streamlined. The implementation of an e-filing and e-sharing platform by NamPort would go a long way of accelerating procedures.

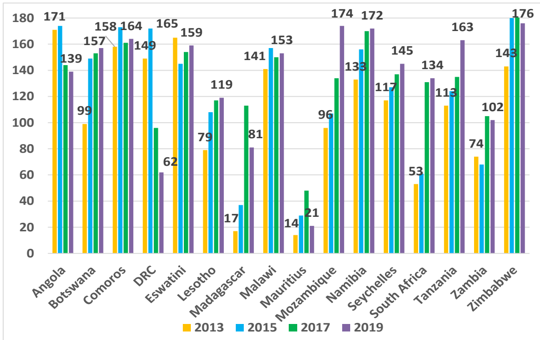
The rollout of the integrated tax administration system by the Ministry of Finance will enable taxpayers to fill in and submit tax returns electronically, which will reduce time and costs. **Further efforts are, however, required** to remove unnecessary bureaucratic hurdles and to enhance Namibia's readiness for the Fourth Industrial Revolution: These efforts should start with a **thorough analysis** of the results by all institutions involved and result in an implementable strategy with clear timelines to address the weaknesses and support the strengths even further. Institutions involved in the process of approving new business registrations need to jointly **accelerate the implementation** of a one-stop facility. In addition, these institutions need to apply new technologies and platforms that facilitate the submission of digital files replacing hard copies. While government institutions have to lead the process, close **cooperation with the private sector** is necessary. In order to ease regional and international trade, the government could take the lead in **coordinating efforts on the regional level** to harmonise documentation as well as to ensure border posts are connected to electricity and ICT services. Last but not least, in order to equip learners for the technological challenges ahead, **connecting all schools to electricity and ICT services** has to become a priority.

The **International Monetary Fund** has reduced its global economic growth forecast for 2018 and 2019 in its **World Economic Outlook update October 2018**. For both years, **economic growth is expected to reach 3.7% -** 20 basis points below the forecast of 3.9% in July. Growth for 2018 in the Euro area was again revised down by 20 basis points to 2.0% after the same adjustment in July. Growth prospects for the other main economies remained unchanged. The US economy is projected to grow by 2.9%, the Chinese by 6.6% and the Indian by 7.3%.

Sub-Saharan Africa is expected to face stronger headwinds than previously thought. In January 2017 economic growth for 2018 was projected at 3.7%, which was adjusted to 3.3% in January 2018 and now to 3.1%. This is due to lower growth in the two main economies – **Nigeria and South Africa**. Nigeria's economy is expected to expand by 1.9% down from 2.1% projected in July. Growth prospects for the South African economy were almost halved from 1.5% in April and July 2018 to just 0.8% in October.

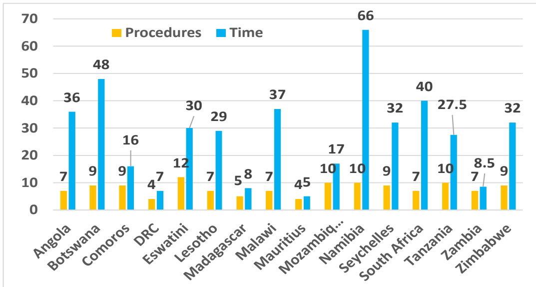
While economic prospects for China (6.6%), India (7.3%) and Russia (1.7%) remained unchanged, **Brazil and South Africa** have growth figures that have been adjusted downwards by 40 and even 70 basis points to 1.4% and 0.8%

Starting a business – SADC member states ranking out of 190 countries



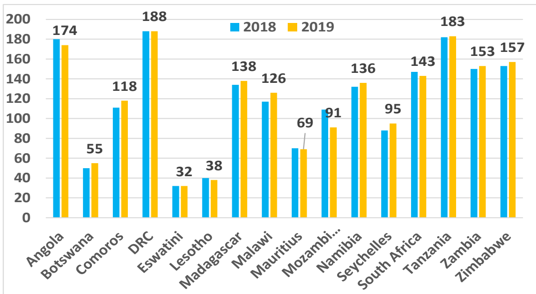
Source: WB, DB, various years

Number of procedures and time (in days) to start a business in SADC member states (DB2019)



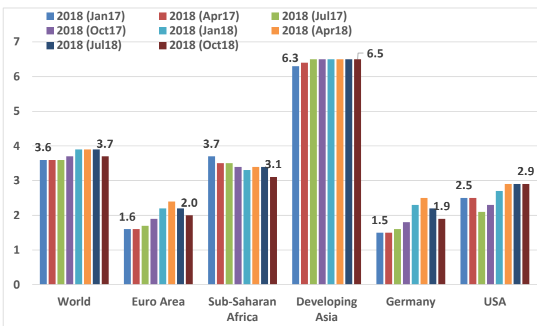
Source: WB, DB, various years

SADC MS ranking ito Trade across borders



Source: WB, DB, various years

Global economic outlook for 2018 in per cent for selected countries and regions



Source: IMF, World Economic Outlook October 2018 respectively. The lower growth for South Africa has implications for Namibia. The Namibian economy contracted by 0.9% in 2017 and it continued to contract during the first two quarters of 2018 by 0.2% in each. Consequently, the Minister of Finance in his Mid-Year Budget Review **revised the outlook** from growth of 1.2% for 2018 **to a contraction of 0.2%.** If the prognosis holds, Namibia will have been in a recession for two consecutive years, However, a Bank of Namibia analysis revealed that private sector activities have expanded so far this year, but the contraction in public sector activities is expected to outweigh this expansion and result in an overall decline of the economy.

The **global warning signs** have been clear for some time: Increasing global uncertainties caused by outstanding issues in the ongoing Brexit negotiations; the trade wars started by the US administration against mainly China, but also other countries and blocs such as the EU; repatriation of investment by US companies; the increase in the oil price due to the re-imposition of sanctions against Iran; and the withdrawal of financial investors from emerging markets. Because of global and regional headwinds**, Namibia** needs to **act on domestic shortcomings** such as teething problems with the new Procurement Act that resulted in an execution rate for capital projects during the first half of the Financial Year 2018/19 of 27% (which partly explains the poor economic performance so far this year) and more decisively on the lack of competitiveness (see above), as well as the general failure to implement programmes and projects. Additional efforts by the private and public sectors are needed to support domestic businesses that offer goods and services at competitive price and quality levels (the Ministry of Finance took the right step by cancelling tenders with specifications that favoured foreign suppliers) as well as to identify products and services that could be supplied domestically.

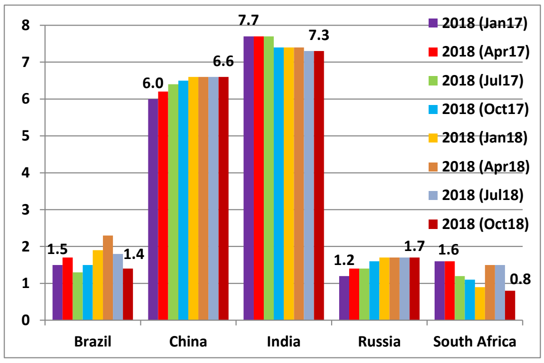
The Minister of Finance presented his **Mid-Year Budget Review** on 24 October 2018. The review included a pre-budget statement for the next three years starting 1 April 2019. The Minister **revised economic growth** for 2018 from an expansion by 1.2% to a contraction of 0.2%, which has resulted in a drop of revenue from Value Added Tax and in increasing tax arrears. The slow pace of recovery in South Africa has led to declining transfers from the Southern African Customs Union. **Despite these challenges, revenue outturn** for the first six months of the current Financial Year 2018/19 stood at 51%, mainly due to higher revenue from 'other mining companies' and from withholding taxes. The latter could indicate that businesses and individuals are keeping more money in their bank accounts to mitigate the effects of the economic climate.

Expenditure remained on track as well with an overall execution rate of 50%, mainly due to an execution rate of 51% for operational expenditure. The execution rate for the development budget stood at 27% owing to challenges with the new procurement law that delayed the implementation of major projects. These unintended savings are being reallocated to other sectors among others for the implementation of some of the resolutions of the Land Conference.

Although revenue and expenditure are in line with the budget, we expect the **budget deficit and the public debt** as a ratio of GDP **to increase** to 5.2% and 46.8% respectively because of the anticipated decline in GDP, which is the denominator for these ratios.

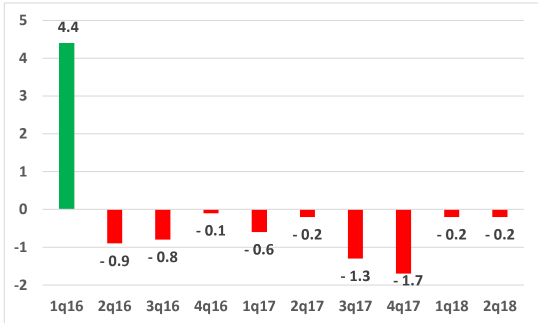
The lack of implementation of programmes and projects, as reflected in the lack of progress in improving Namibia's competitiveness, clearly indicates

Economic outlook for BRICS countries for 2018 in per cent



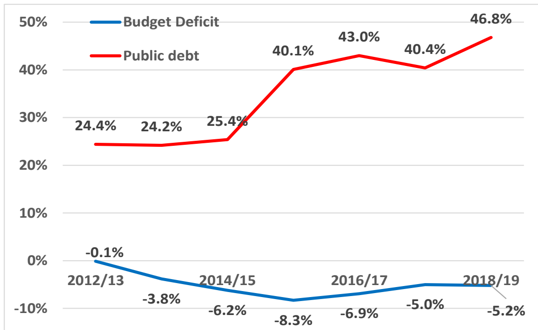
Source: IMF, World Economic Outlook October 2018

Quarterly economic growth in per cent, 2016 to 2018



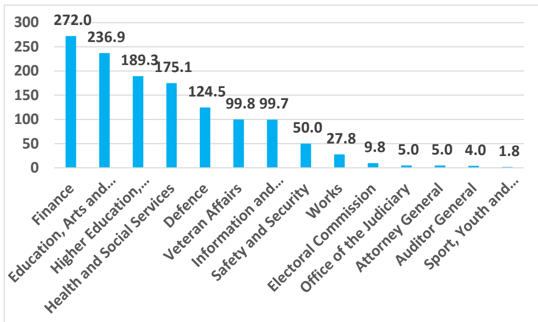
Source: Namibia Statistics Agency, Gross Domestic Product Second Quarter 2018

Budget deficit and public debt as ratio of GDP, in per cent



Source: Ministry of Finance; 2018/19: Own calculation based on projected inflation and GDP growth

Proposed re-allocation of funds for FY2018/19



Source: Ministry of Finance, FY2018/19 Mid-Year Budget Review Speech

Note: Allocation to the MoF is among others for Pension Fund contribution and the Contingency Fund that besides global headwinds some of the current economic challenges are homemade. The **wage bill** absorbs 50% of total revenue. Reliance on natural attrition will not address the underlying structural issues (e.g. the vast number of failing public entities). This can only be addressed through a thorough review of these structures. There are other areas of the budget that need to be addressed such as the **subsidisation** of the Public Sector Employee Medical Aid Scheme (**PSEMAS**) by some NAD2.2 billion. The **zero-rated VAT** for some foodstuffs should be reviewed since it most likely does not benefit the intended beneficiaries, namely the poor. While the per capita allocation for learners has been cut, the Ministry of Defence received the fifth highest amount in the re-allocation. The current fiscal situation requires a clear prioritisation of allocations in line with national development priorities as well as a focus on projects with a potential to yield high economic and social returns.

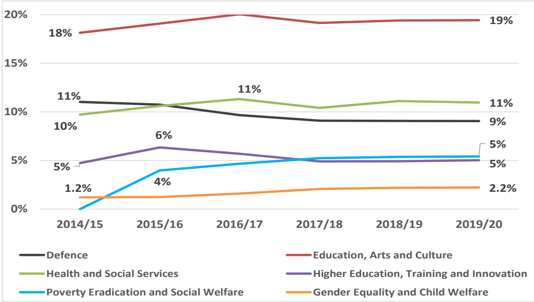
Copper and zinc prices have come **under pressure** this year owing to increased uncertainties regarding world trade. This affected investment negatively and resulted consequently in lower demand for a number of commodities. Zinc prices are 23.8% and copper prices 14.3% lower than at the beginning of the year and 22.1% and 9.9% below prices on 8 Nov. 2017. The minerals were trading at USD2,521.00 per tonne and USD6,135.00 per tonne on 8 Nov. 2018. **Gold**, although regarded as a safe haven in times of uncertainty, has not benefitted this time and was trading 4.6% **below prices** at the beginning of 2018 and 3.7% below prices on 2 Nov. 2017. The price for an ounce of the precious metal was USD1,232.10 on 2 Nov. 2018.

In contrast, **uranium prices** have **revived** since the middle of April 2018 and are up by 21.3% and 42.2% since the beginning of 2018 and 5 Nov. 2017 respectively. Uranium was trading at USD28.80 per pound – the highest spot market price since March 2016. These are spot market prices and not contract prices for mining companies. Contract prices are influenced by the spot market, but are, during times of low prices, above the spot market in order to secure supplies. Still, the low prices led to another Namibian uranium mine – Langer Heinrich – being put on care and maintenance.

So-called **battery minerals** – minerals used for the production of electrical vehicle, scooter and bicycle batteries – have **increased in value**. The price of **lithium** increased about 2.5 times between 2015 and the beginning of 2018 from USD6,500 per tonne to USD16,000 per tonne, while the price of **cobalt** rose from USD30,000 per tonne to USD80,000 per tonne over the same period. Southern Africa is rich in lithium. Since Namibia in her Growth@Home strategy envisages creating **regional value chains**, lithium could provide an opportunity to establish regional battery production.

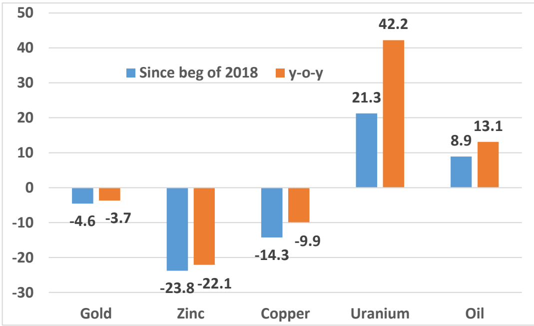
Oil prices have increased by 8.9% and 13.1% since January 2018 and 5 Nov. 2017 respectively, although they have declined from more than USD80 per barrel in the third week of October to USD73 per barrel on 5 Nov. 2018, despite the re-imposition of sanctions against Iran by the USA that came into effect beginning of November. The rise in oil prices coupled with the depreciation of the NAD versus the USD has resulted in six and seven consecutive **petrol and diesel price increases** in Namibia since June and May respectively. Petrol prices are 24.7% and diesel prices 28.9% higher than in November 2017. This has resulted in the subsequent **rise in inflation** from a low of 3.5% in Feb. to 4.8% in Sep. 2018.

Allocation to selected votes in the original budget



Source: Ministry of Finance, various years, Estimates of Revenue and Expenditure

Price changes for selected commodities in per cent

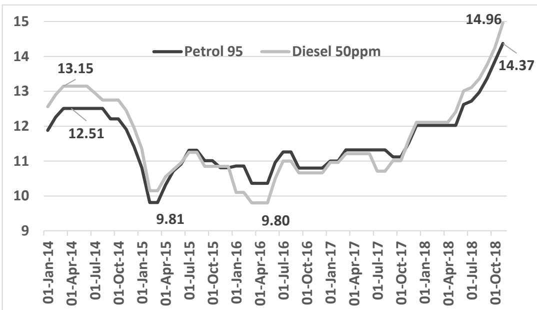


Source: Daily data World Gold Council, LME (copper, zinc), Uranium company, EIA (oil)

Oil prices in USD per barrel (Europe Brent), 2012 to Nov. 2018

Source: Energy Information Administration, daily data

Petrol and diesel prices in NAD per litre



Source: Ministry of Mines and Energy, monthly 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.