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MINISTRY OF FINANCE - EPAS
Quarterly Economic Update

This Issue…

The aim of these Updates is to inform the public of any recent economic developments, focusing on global, regional and domestic developments that are likely to impact on the Namibian economy. Every Update will contain a standard update on the global, regional and domestic economy.

Special features will also be included on specific analysis conducted in the Ministry. In this issue, we analyse Namibia's international competitiveness.

Global Developments

The outlook for world growth has once again brightened following a pickup in economic activity during the second half of 2013, prompting the IMF to **revise up its global growth forecast for 2014 from 3.6% to 3.7%.** This marks a sharp rise from the estimated 3.0% expansion posted in 2013, and **growth is further expected to accelerate in 2015, to 3.9%,** as the global recovery continues to gather pace.

The IMF's upward revision to global growth in 2014 comes on the back of an uptick in final demand and an improvement in financial market conditions in advanced economies, which in turn has helped to boost exports in emerging markets and developing economies. The growth outlook in the **US** has been boosted by strengthening final domestic demand, which has been supported in part by the recent budget agreement reached in December 2013. This has helped to ease fiscal concerns in the US, and thus encouraged the IMF to **revise up its growth forecast for 2014 from 2.6% to 2.8%.** However, while the recently agreed budget deal is expected to boost growth in 2014, it is anticipated to have to opposite impact in the following year, leading the IMF to **lower its growth forecast for 2015 from 3.4% to 3.0%.**

Growth projections for **Japan** have followed suit, with the IMF **revising its 2014 forecast up, from 1.3% to 1.7% but its 2015 forecast in the opposite direction, from 1.2% to 1.0%.** These developments were also predicated upon recent fiscal policy developments, with temporary fiscal stimulus now expected to offset the impact of the introduction of a consumption tax increase to a greater extent in 2014 than originally anticipated, albeit at the expense of growth in 2015 as the stimulus is withdrawn.

Meanwhile, with the recovery in Europe continuing to gain momentum, the IMF has also revised its growth forecasts for the **Euro zone.** Growth in the Euro zone is, however, expected to remain uneven, with high debt – both public and private – and financial fragmentation continuing to subdue domestic demand across much of the region. And while exports are expected to help boost economic growth in the Euro zone, this will be continue to be offset by ongoing domestic issues, which has limited the IMF to only **revising its growth forecast for the Euro zone from 0.9% to 1.0%.** Similarly, while the outlook for 2015 has improved, ongoing concerns over disparities in the pace of recovery among member states has resulted in only **a minor upgrade in the Euro zone's growth forecast for 2015, from 1.4% to 1.5%.**

These developments have consequently resulted in the IMF raising its growth forecast for **advanced economies from 2.0% to 2.2% in 2014, while at the same time lowering its 2015 projection, from 2.5% to 2.3%.** However, the dynamics in emerging market and developing economies differ quite sharply.

The IMF's growth forecasts for **China** have been revised up for both 2014 and 2015 largely on the back of an acceleration in investment witnessed in the second half of 2013. That said, with policy measures aimed at slowing credit growth and increasing the cost of capital in order to reposition growth drivers, economic activity in China is still expected to remain subdued compared to recent historical norms. As such the IMF's growth forecasts for China have been **raised only marginally, from 7.2% to 7.5% for 2014 and from 7.1% to 7.3% for 2015.**

Growth projections in **India** have also been adjusted upward, following a favourable monsoon season, higher-than-anticipated export growth in the second half of 2013, and the announcement of stronger structural policies aimed at supporting investment. In light of these developments, the IMF has **revised up its projections for India from 5.2% to 5.4% for 2014, and from 6.3% to 6.4% for 2015.**

However, as a result of tighter financial market conditions, tighter policy stances since mid-2013, and structural bottlenecks, growth forecasts for both Brazil and Russia have been lowered. **Brazil** has seen its growth forecasts **fall from 2.5% to 2.3% for 2014 and from 3.2% to 2.8% in 2015,** while Ru**ssia's** growth forecasts have been **slashed from 3.0% to 2.0% for 2014 and from 3.5% to 2.5% for 2015.**

Overall, however, these developments have largely cancelled one another out, with the IMF leaving its growth forecast for **emerging market and developing economies unchanged for 2014 at 5.1%, while only raising its 2015 projection very marginally, from 5.3% to 5.4%.**

Sub-Saharan Africa

Following the upturn witnessed in the global economy in the second half of 2013, the IMF has revised up its 2014 and 2015 growth forecasts for **sub-Saharan Africa** (SSA). SSA is **now expected to expand by 6.1% in 2014 and by 5.8% in 2015, up from previous projections of 6.0% and 5.7% growth, respectively.**

However, risks to economic activity remain weighted to the downside. Growth prospects across emerging market and developing economies are expected to remain constrained by tighter financial market conditions, tighter policy stances since mid-2013, and structural bottlenecks, while the unwinding of quantitative easing in the US poses further risks to capital flows in emerging markets. In light of these concerns, IMF Managing Director Christine Lagarde has therefore described the region's outlook as encouraging, but not without risk.

Ongoing concerns over the **South African** economy have prompted the IMF to **revise down its 2014 growth forecast for South Africa, from 2.9% to 2.8%, although it has kept its 2015 forecast unchanged at 3.3%.** Meanwhile, **Nigeria** is **forecast to grow by 7.4% in 2014,** before **slowing to 6.9% 2015,** and **Angola** is **expected to expand by 6.3% in 2014 and by 6.4% in 2015.**

South African Economy

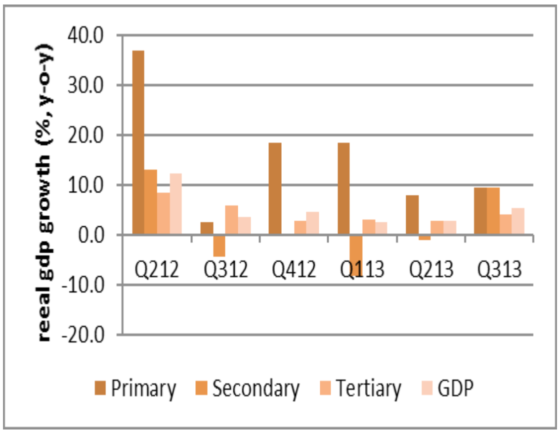
Real GDP in South Africa grew by 1.8% y-o-y in Q313, marking a minor deceleration from the 2.3% y-o-y expansion recorded in the second quarter of the year. *Finance, real estate and business service* made a significant contribution to real GDP growth in Q313, adding 0.8pp, as growth in the sub-sector accelerated slightly from 3.6% y-o-y in Q213 to 3.9% y-o-y in Q313. Meanwhile, growth in *Transport storage and communication* accelerated to 2.1% y-o-y, from 1.8% y-o-y in Q213, contributing 0.2pp to headline growth, and despite growth of *Wholesale, retail and motor trade, catering and accommodation* decelerating in Q313, to 2.0% y-o-y from 2.4% y-o-y in Q213, the sector nonetheless also made a notable positive contribution of 0.2pp to overall growth. *Mining and quarrying,* meanwhile, experienced a strong recovery in Q313, accelerating to 2.7% y-o-y from negative growth of 2.8% y-o-y the previous quarter.

On the other hand, *Agriculture, forestry and fishing* recorded a decline of 2.9% y-o-y in Q313, down from positive growth of 6.8% y-o-y in Q213, while *Manufacturing* also recorded negative growth in Q313 of 0.4% y-o-y, having increased by 2.6% y-o-y in Q213. This decline was brought about by lower production in the motor vehicle, parts and accessories and

other transport equipment division. Further, growth in *General government* services slowed in Q313, from 1.7% y-o-y in Q213 to 1.0% y-o-y. In light of this recent weakening of economic activity, South Africa is estimated to have growth by just 1.8% in 2013, and with concerns persisting over the health of the economy, the IMF has elected to **revise down its 2014 growth forecast for South Africa, from 2.9% to 2.8%. It has, however, kept its 2015 forecast unchanged at 3.3%.**

Namibian Economy

Economic activity in Namibia improved considerably in Q313 as the economy expanded by 5.3% y-o-y, up from 2.7% y-o-y in the second quarter.



The improved growth figure came on the back of strong performances in *Manufacturing*, which grew by 15.2% y-o-y and contributed 1.7 pp to overall growth, *Wholesale and Retail Trade*, which recorded growth of 11.6 % and contributed 1.6 pp to overall growth, and *Agriculture*, which expanded by 31.9% y-o-y and contributed 1.1 pp to overall growth. Growth in Growth in *Manufacturing* can be attributed to impressive growth in the *Other manufacturing, Manufacturing of other food products* and *meat processing* subsectors, while strong sales of livestock due to the recent drought conditions accounted for the ongoing rapid growth in *Agriculture*. Meanwhile, *Transport and Communication* also recorded robust growth of 6.8% y-o-y, compared to the negative growth of 3.8% in the second quarter.

However, these impressive performances were offset by a reversal in fortunes in the Fishing sector and continued weakness in *Hotels and Restaurants*. The former contracted by 8.3% y-o-y in Q313 down from 7.0% growth in Q213, while the latter contracted by 9.1% y-o-y. This however, marked an improvement compared to the contraction of 31.2% y-o-y recorded in Q213. The weak performance in this sector is mainly due to reduced tourism activities.

The improved performance of the Namibian economy during the third quarter of 2013 means that the Ministry of Finance's **estimate of robust full-year growth of 4.8%** in 2013 remains relevant. However, with risks still weighted firmly to the downside, developments will continue to be monitored closely. **Real GDP is expected to increase by 5.0% in 2014, after which it is projected to slow to 4.8% in 2015.**

Balance of Payments

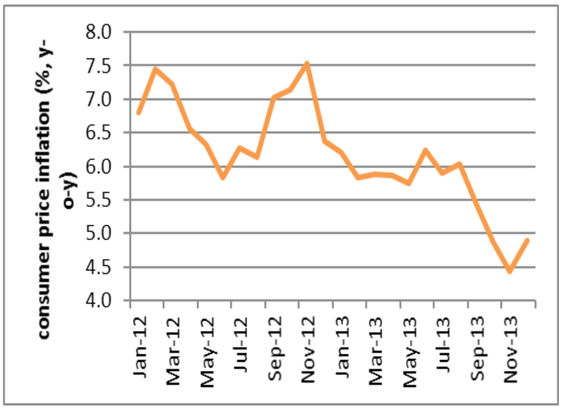
The third quarter of 2013 saw Namibia's current account balance decline sharply, from a surplus of N$3.4bn in Q213 to a deficit of N$3.9bn, as the merchandise trade balance and net investment income both deteriorated sharply. Exports rose by 30.3% q-o-q, from N$10.5mn in Q213 to N$13.7mn in Q313, but imports grew by 42.0% q-o-q, from N$12.9mn in Q213 to N$ 18.3mn over the same period, resulting in an increase in the merchandise trade deficit of N$2.2bn to N$4.6bn. Meanwhile, investment income recoded an outflow of N$2.4bn in Q313 compared to an inflow of N$2.1 recorded in Q213, as outflows of direct investment increased by a mammoth 42.7% q-o-q. However, current transfers recorded a slight increase in Q313 of 1.8% q-o-q in Q313 from a surplus of N$3.8bn in Q213 to N$3.9bn in Q313, mainly supported by SACU receipts.

The capital and financial account recorded a surplus of N$1.5bn in the third quarter of 2013 compared to a surplus of N$457mn in Q213. The surplus was primarily a result of an increase in equity capital in the mining sector, which lead to a N$3.8bn net inflow of

direct investment in Namibia, reversing the N$377mn outflow recorded in Q213. Portfolio investment and other short- and long-term investments, meanwhile, posted net capital outflows, of N$1.2bn, N$1.1bn and N$870mn, respectively. Capital outflows in Portfolio and other short-term investments were mainly due to an increase in investment of assets abroad, while long-term investment outflows increased because of reduced long-term liabilities.

Consumer Prices

Following the rebasing of the NCPI in November, inflation for December came in at 4.9% y-o-y, an acceleration compared to the 4.4% recorded in November. This upward movement came as a result of the increase in price growth of *Food and non-alcoholic beverages and Alcoholic beverages and tobacco,* from 4.3% y-o-y to 6.1% y-o-y and from 7.7% y-o-y to 8.4%, respectively. Meanwhile, *Recreation and culture* also posted a steep acceleration in price growth, from 4.7% y-o-y in November to 5.2% y-o-y, while price growth of *Clothing and footwear, Health and Miscellaneous goods and services* also accelerated in December.

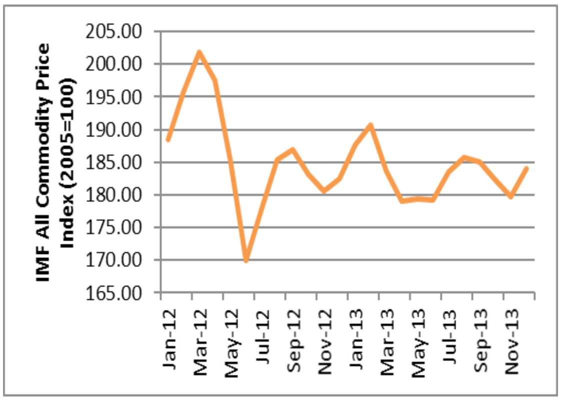


The acceleration in inflation in December came despite the fact that price growth of *Transport* and *Furnishing, household equipment and routine maintenance of the house* both decelerated in December, while *Communications* actually declined. *Transport* slowed from 7.3% y-o-y in November to 6.9%, while *Furnishing, household equipment and routine maintenance of the house* decelerated from 5.3% y-o-y to 4.9%, and *Communications* fell by 0.1% y-o-y having risen by 1.5% y-o-y in the previous month.

The general trend for inflation is, nonetheless, still broadly downwards. Headline consumer price inflation continued to trend lower over the second half of 2013, with full-year average inflation slowing to 5.7% in 2013, down from the 6.7% registered in 2012. **Inflation is expected to continue to moderate in 2014, with consumer price growth forecast to average 5.1%.**

Commodity Prices

The IMF All Commodity Price Index (ACPI) increased by 0.8% y-o-y in December, putting a halt to a run of three consecutive months of y-o-y declines.



This increase in the ACPI came despite the price of *Food and beverage* and of *Metals* registering y-o-y declines in December, as price increases in *Agricultural raw materials* and in *Oil* compensated for these losses. *Food* prices declined for a sixth straight month in December, falling by 3.6% y-o-y having dropped by 5.7% y-o-y in the previous month, while *Metals* prices fell by a massive 7.0% y-o-y, marking an acceleration from the 2.3% y-o-y fall recorded in November and a fourth consecutive month of declines for the sub-index. However, the price of *Agricultural raw materials* continued to trend higher, increasing by 5.3% y-o-y in December having risen by 5.8% in November, while Oil prices rose by 4.0% y-o-y.

SPECIAL FEATURE

Spotlight on: Competitiveness

The recent release of two key reports has painted a somewhat mixed picture for Namibia's international competitiveness. While Namibia's ranking in the World Economic Forum's *Global Competitiveness Index* (GCI) rose two places in 2013-14, to 90 (out of 148 countries) from a position of 92nd (out of 144 countries) in 2012/13, the World Bank's *Doing Business* rankings saw the country move in the opposite direction, falling from 94th in 2013 to 98th in 2014. These opposing moves suggest that while some progress appears to be being made in improving Namibia's global competitiveness, there is still much work to be done, and even hints that in some areas, Namibia may in fact be going backwards.

A more in depth analysis of the two reports reveals this to indeed be the case. Namibia's improved GCI ranking– which followed two consecutive years of declines, from 74th (out of 139 countries) in 2010-11 and from 83rd (out of 142 countries) in 2011-12 – was the culmination of improved rankings from the previous year's report in 8 of the 12 pillars which comprise the GCI, and declines in the other 4. Meanwhile, Namibia's score improved in 7 of these pillars, declined in 1 and remained unchanged in the remaining 4.

Table 1: World Economic Forum Global Competitiveness Rankings

	2009/10	2010/11	2011/12	2012/13	2013/14
Global Competitiveness	**74**	**74**	**83**	**92**	**90**
Institutions	37	38	43	52	48
Infrastructure	32	54	58	59	60
Macroeconomic environment	66	40	63	84	70
Health and primary education	109	112	114	120	125
Higher education and training	11	111	113	119	115
Goods market efficiency	77	56	71	87	91
Labour market efficiency	57	55	57	74	59
Financial market development	31	24	36	47	39
Technological readiness	86	88	99	104	90
Market size	113	114	12	120	121
Business sophistication	86	88	95	102	99
Innovation	103	96	92	101	94

Source: *World Economic Forum Global Competitiveness Report, 2013-14*

Policymakers should be congratulated on achieving sizeable climbs up the rankings in the areas of *Macroeconomic Environment* (which rose 14 places from 2012-13, from 84th to 70th), *Labour Market Efficiency* (up 15 places from 74th to 59th) and *Technological Readiness* (up 14 places from 104th to 90th), as well as for attaining a top 50 ranking for *Institutions* (whose ranking rose from 52nd to 48th) and for *Financial Market Development* (whose ranking rose from 47th to 39th). However, a decline in the score for *Goods Market Efficiency* (from 4.2 out of 7.0 in 2012-13 to 4.1) and rankings in the bottom 50 for *Health and Primary Education* (whose ranking worrying fell from 120th to 125th) and for *Higher Education and Training* (whose ranking remained in the bottom 50 at 115th, despite a rise of 4 places) emphasise that there are still a number of areas with a vast amount of room for improvement.

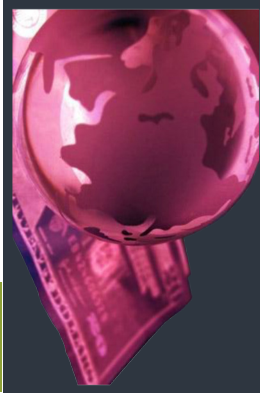
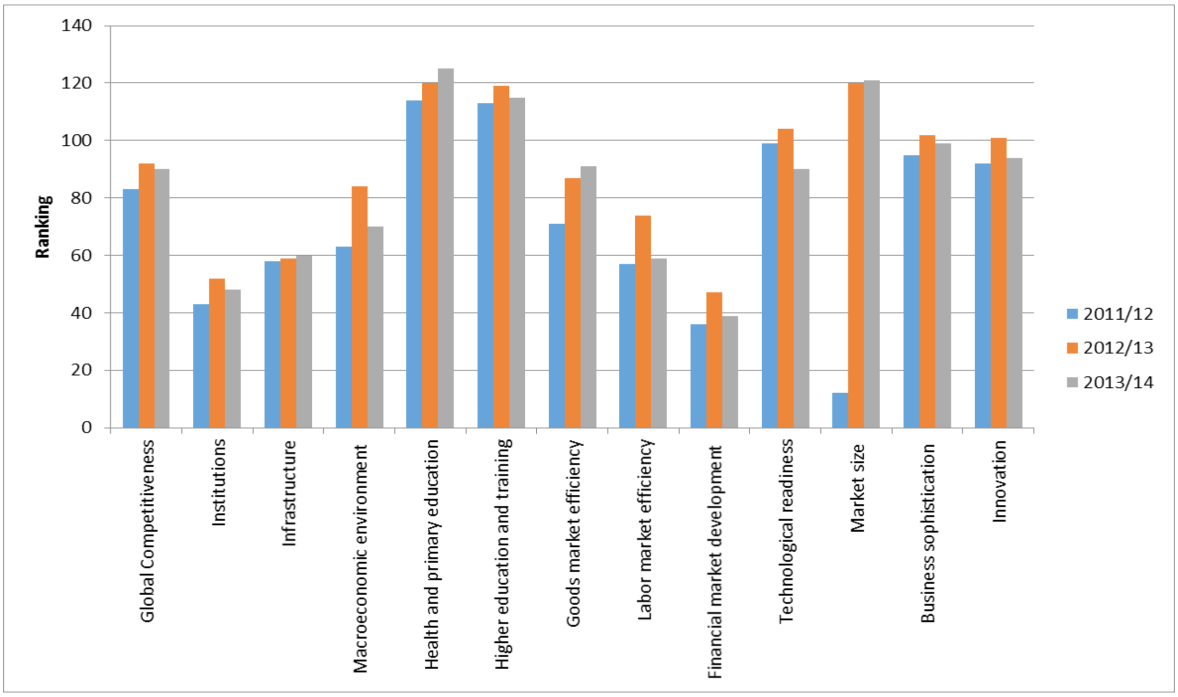


Chart 1: World Economic Forum Global Competitiveness Rankings



Source: *World Economic Forum Global Competitiveness Report, 2013-14*

This sentiment is reinforced by the latest *Doing Business rankings*. The 2014 report revealed that the relative ease of doing business in Namibia declined for an eighth consecutive year, with Namibia's ranking falling to an all-time low of 98th (out of 189 countries), down from 87th (out of 185 countries) in 2013 and from an all-time high of 33rd (out of 155 countries) in 2006. However, as in the case of the most recent GCI rankings, there were some positives to be taken from the latest *Doing Business rankings*.

Table 2: World Bank Doing Business Rankings

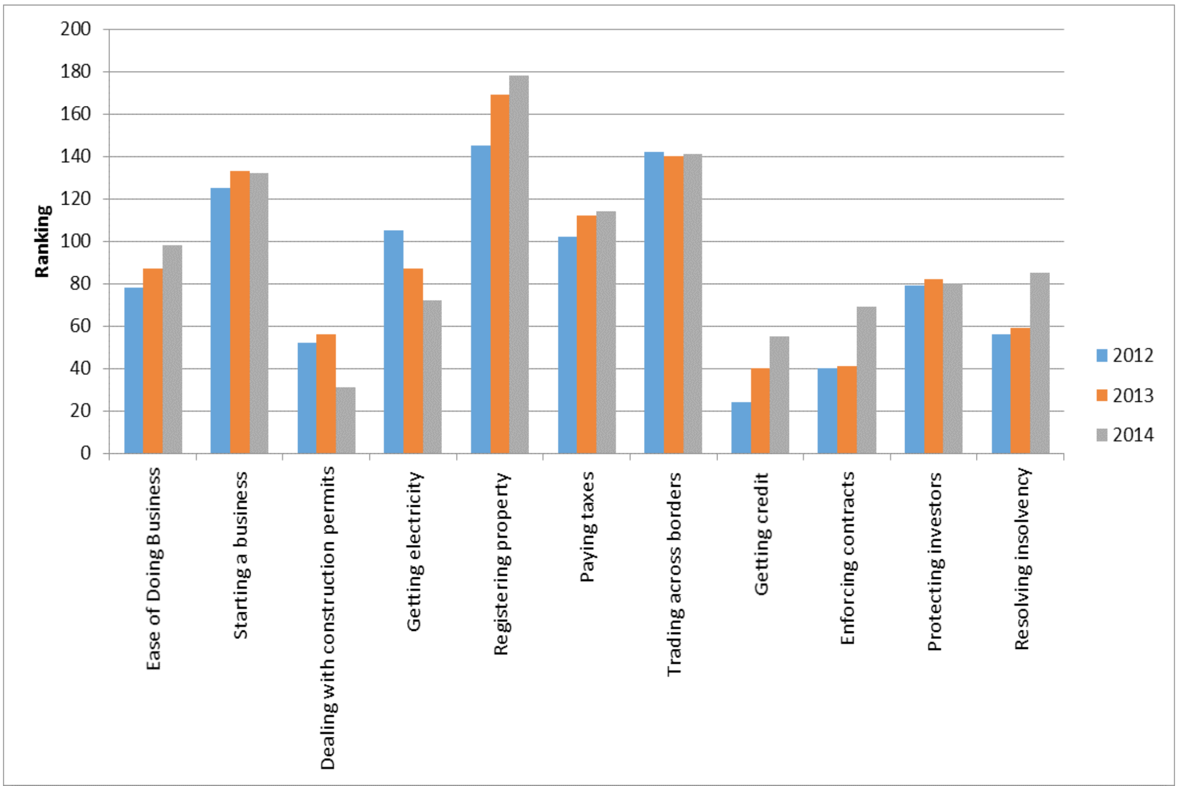
	2010	2011	2012	2013	2014
Ease of Doing Business	**66**	**69**	**78**	**87**	**98**
Starting a business	123	124	125	133	132
Dealing with construction permits	38	36	52	56	31
Getting electricity	N/A	N/A	105	87	72
Registering property	134	136	145	169	178
Paying taxes	97	99	102	112	114
Trading across borders	151	153	142	140	141
Getting credit	15	15	24	40	55
Enforcing contracts	41	41	40	41	69
Protecting investors	73	74	79	82	80
Resolving insolvency	55	53	56	59	85

Source: *World Bank Doing Business Report, 2014*

Namibia improved its ranking in 4 out of the 10 sub-indices that comprise the *Doing Business*

rankings, making notable progress in *Dealing with Construction Permits* and *Getting Electricity* in particular. Namibia rose 25 places in the rankings for the former, from 56th to 31st, as the time required for dealing with construction permits fell from 139 days to 123 days and the cost as a percentage of income per capita of doing the same fell from 18.5% to 14.7%. Meanwhile, for the latter Namibia improved its ranking by 15 places, from 87th to 72nd, as the number of procedures required to obtain a new electricity connection fell from 7 to 6, the time required to obtain a new electricity connection fell from 38 to 37 days, and the cost of obtaining a new electricity connection fell from 110.9% to 30.6% of income per capital.

Chart 2: World Bank Doing Business Rankings



Source: *World Bank Doing Business Report, 2014*

However, at the same time the *Doing Business* rankings highlighted a number of areas in which Namibia has failed to improve, and indeed in some cases moved backwards. Namibia's ranking for *Enforcing Contracts* fell 28 places, from 41st to 69th as the number of days required to resolve a standardized commercial lawsuit between two domestic businesses through the local first-instance court increased by over 70%, from 270 to 460 days, while its ranking for *Resolving Insolvency* dropped by 26 places, from 59th to 85th, as the number of years required to resolve a standardized commercial lawsuit rose from 1.5 to 2.5 and the recovery rate for creditors fell from 42.3 to 34.9 cents on the dollar.

Further, the *Doing Business* report noted that "Namibia made transferring property more expensive by increasing the transfer and stamp duties", which contributed to a fall of 9 places in Namibia's ranking for *Registering Property*, from 169th to 178th. In addition to this, however, the time required to register property increased from 46 to 54 days, while the cost of doing so rose from 8.0% to 13.8% of income per capita. These developments have now left Namibia rated as the 12th worst country among those assessed for registering property, which as the *Doing Business* report highlights limits "financing opportunities for new businesses and expansion opportunities for existing ones since "Unregistered property cannot be used as collateral by banks".

Finally, it is important to highlight that for two of the sub-indices (*Paying Taxes* and *Trading Across Borders*), Namibia's ranking declined despite making improvements across various sub-components which made up the overall score for the sub-indices. Namibia's ranking for *Paying Taxes* fell two places, from 112th to 114th, even as the number of hours per it takes to prepare, file and pay taxes fell from 350 to 314 and the total tax rate as a percentage of profits fell from 22.7% to 21.8%. Meanwhile, the country's ranking for *Trading Across Borders* fell one place, from 140th to 141st, despite the number of documents required to export falling from 9 to 8 and the cost of exporting falling from US$1,800 to US$1,750 per container.

This emphasises that competitiveness is a relative concept. Improvements may well be made – which is undoubtedly a positive development – but unless such improvements maintain pace with other countries, Namibia faces the prospect of falling behind its peers. This is significant, since as Chairman of the Economic Association of Namibia Rowland Brown highlighted in The Namibian "maintaining and improving Namibia's competitiveness is critical to drive and develop the economy and improve the livelihoods of people". However, the most recent competitiveness rankings suggest that "while Namibia is not getting notably worse in terms of score, it is failing to reform at the same pace as many other economies". This suggests that there is still more work to be done in terms of improving the country's international competitiveness.

REPUBLIC OF NAMIBIA

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