Progress with a Purpose:
Namibia – a port in a stormy world

Philip Clayton
20 February 2013
International scene: Recovery from Great Recession
Global Economic Outlook - IMF

TO ENSURE GROWTH, IMF RECOMMENDS:

- **Advanced economies:**
  - avoid premature monetary policy tightening
  - repair balance sheets
  - implement structural reforms to boost growth

- **Emerging market and developing economies:**
  - manage vulnerabilities from capital flow volatility
  - safeguard financial stability after rapid credit growth
  - implement structural reforms to boost growth

**RISKS**

- Possible deflation in advanced economies
- Weak domestic demand in emerging markets
- Stagnation in euro area
- Capital flow volatility to some emerging markets

**GROWTH**

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>Advanced</th>
<th>Emerging Markets &amp; Developing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3.1</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>3.0</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>3.7</td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>3.9</td>
<td>2.3</td>
<td></td>
</tr>
</tbody>
</table>
Global growth outlook (IMF)

Figure 2. Global GDP Growth
(Percent; quarter over quarter, annualized)
Global themes

- The global economy has weathered the financial meltdown of the Great Recession fairly well – but potentially at great cost.

- The US’s quantitative easing is unprecedented – the Fed’s balance sheet has swelled several-fold. Tapering is a slowing – not yet a reversal – of this. And yet it is already causing ructions in currency markets and emerging financial markets.

- Healthcare reform is almost unprecedented in its scope in US of taking 1/6 of economy into state control

- The Eurozone appears to be turning the corner: unemployment is drifting lower (although many have dropped out of the labour market); PMIs are now in positive territory; GDP seems to have turned – even in the PIIGs. But the cost has been Depression level falls in some countries’ GDPs, and unemployment levels for youth in excess of 50% in some cases.

- The Eurozone has some painful decisions to take – yet further coordination (in teeth of popular discontent); or reversal of the trend of decades. And elephant in the room is demography – arising tide of grey.

- China’s workforce declined 3m in 2012, and further last year. First economy to become old, before becoming rich. The extensive growth path coming to an end. Approaching pc GDP level where, either democratize (Taiwan, South Korea), or lose reason for Party’s legitimacy.

- Arab Spring has turned cold – Syria, Egypt. Saudi Arabia faced with pressure from shale revolution, and also from need to move beyond founder’s sons for ruling class. Turkey’s troubles increasing.
Improving GDP and inflation outlook

Continental shift
Sub-Saharan Africa, % change on previous year

Inflation*

GDP

Source: IMF

* Year-end  * Forecast
Booming China-Africa trade

Source: China embassy, Kenya. In 2009, China became the continent’s biggest bilateral trading partner for the first time.

Figure 1: China-Africa Trade Volume (2000-2012)
(Unit: US$100 million)
Booming India trade with the continent, too

- India is catching up. But much economic – and diplomatic – ground to make up. Delhi’s diplomatic corps was smaller than that of New Zealand!
Global interest rates – moving off the floor

- Monetary repression has saved us from a depression – but this has had costs: sub-inflation savings rates; higher capital needed for pensions; various bubbles – housing, and in emerging markets, etc

- Source: IMF
- Key rates are 10-year govt bond yields
Pity some major mines – planned in boom – coming on stream 2015+ in Namibia. But at least, a floor higher than that of early 2000s is expected.

Source: IMF
Sub-Saharan Africa: themes

Impact of mega-projects on small, fragile economies – Sierra Leone, South Sudan could see growth in excess of 10% in 2014 (mining; oil). But this can easily be reversed – see South Sudan in 2013.

Growing demonstration effect – now Zimbabwe a now major outlier, for example.

IF policy good, countries can reap a very significant demographic dividend (lowering youth dependency ratios, before increasing aged ones)

Urbanisation, telecommunications, has led to a revolution in Africa – governments less able to control. When first went to Nigeria, c 300 000 land lines; now, approaching 100m connections.

Rise of China in Africa – now a major trade partner, elbowing out Europe and US. Some 1m Chinese now resident on the continent. USDBn deals now commonplace.

India, from a smaller base, is starting to make an impact, too – and proximity, history – and the country’s own demographic situation – could, in the next couple of decades lead to it catching up to China.

Is a danger that cell phones and others could eat financial sector’s lunch in the region – M-Pesa; micro-insurance; effects on margins.

Outlook positive. But – politics can hinder. And nationalism – eg in mining royalties, etc – can also impact FDI.
Explosion in China-Africa trade

Figure 1: China-Africa Trade Volume (2000-2012)

(Unit: US$100 million)

- Source: China embassy, Kenya. In 2009, China became the continent’s biggest bilateral trading partner for the first time.
Africa-China trade balance

Top 10 Surplus and Deficit Countries in China-Africa Trading (millions of dollars)

- Angola: 20,812
- Sudan: 4,725
- South Africa: 4,103
- Congo: 2,769
- Libya: 2,454
- Zambia: 2,036
- Congo (Kinshasa): 764
- Mauritania: 687
- Namibia: 252
- Ethiopia: -936
- Kenya: -1,271
- Togo: -1,747
- Ghana: -1,810
- Morocco: -2,032
- Benin: -2,148
- Algeria: -2,823
- Liberia: -4,374
- Egypt: -5,123
- Nigeria: -5,625

Source: Sierra Leone Telegraph.
Global – what does this mean for Namibia?

- Commodity floor positive for minerals
- Emerging market currency volatility well understood in Windhoek, given link to Rand – and this will continue
- EU – source of tourists – is tentatively getting over the crisis. But something out of left field still possible (even likely?)
- Over medium term, the shale revolution may lead to lower oil prices. And it may also adversely affect deep-sea gas off Namibia (and oil, if found – latest test well negative.
- 3D printing technology may increase consumer choice, and develop new and exciting technologies – and may disperse manufacturing globally.
- Bio- and nano-technologies may well lead to exciting new industries globally – and further assist those who can tap into these – a longer, and more fruitful - life
South Africa
Consensus forecasts

Rands per US$

<table>
<thead>
<tr>
<th></th>
<th>Consensus from 22 F’csts</th>
<th>Rand per Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spot Rate (Feb. 10):</td>
<td>11.15</td>
<td>15.22</td>
</tr>
<tr>
<td>(end-May 2014):</td>
<td>10.86</td>
<td>14.42</td>
</tr>
<tr>
<td>(end-Feb. 2015):</td>
<td>10.52</td>
<td>13.55</td>
</tr>
<tr>
<td>(end-Feb. 2016):</td>
<td>10.37</td>
<td>13.28</td>
</tr>
</tbody>
</table>

Source: Consensus Economics Feb 2014. Figures to 2020 are annual averages.
### Standard Bank forecasts (January 2014)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (% pa)</strong></td>
<td>3.6</td>
<td>-1.5</td>
<td>3.1</td>
<td>3.5</td>
<td>2.5</td>
<td>1.8</td>
<td>2.1</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>CPI (% pa)</strong></td>
<td>11.5</td>
<td>7.1</td>
<td>4.1</td>
<td>5</td>
<td>5.7</td>
<td>5.8</td>
<td>5.8</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>Prime (an ave)</strong></td>
<td>15.1</td>
<td>11.8</td>
<td>9.9</td>
<td>9</td>
<td>8.3</td>
<td>8.5</td>
<td>9.7</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>USD/ZAR (ave)</strong></td>
<td>8.27</td>
<td>8.4</td>
<td>7.32</td>
<td>7.26</td>
<td>8.2</td>
<td>9.53</td>
<td>10.94</td>
<td>10.38</td>
</tr>
<tr>
<td><strong>Brent ($/b)</strong></td>
<td>99</td>
<td>63</td>
<td>80</td>
<td>108</td>
<td>112</td>
<td>109</td>
<td>107</td>
<td>107</td>
</tr>
</tbody>
</table>

- Volatility of rand makes any forecast for year-end or average somewhat of a gamble. Need to always think about what your core business is – not on currency speculation.
SA – also an election year

- Ours in May. Focus will be on: performance of EFF; growth or not of DA; share of ANC – will it fall sharply or not?
- Also, focus will be on the percentage eligible who vote – or not. Those registered are not all eligible; and disillusion – cf “service delivery protests” – may suggest further erosion of vote
- Focus on transforming the economy remains – and may be intensified (cf allocation to races and females of insolvency work proposed)
- Increasing focus on “cadre deployment” and its impact on delivery (SABC COO does not have a matric- at least a genuine one)
- Service protests – and other factors – raise questions regarding efficacy of state spending (education: pass rate up to near 80% - but less than 50% of entrants 12 years ago write)
- Anger at Nkandla and E-tolls suggests – at least middle classes – are querying bang for tax buck. Tenderpreneurs still a factor – and the inability of the state to successfully prosecute fraud a tragedy (cf the collapsed mall in KZN, despite stay on construction; the Mpisanes having their assets returned. Despite allegations of shoddy construction, or non-delivery – and tax evasion they got more state contracts. And cream of state sector attend their lavish parties.
- Namibia and these issues – leave to you to consider
- Mining sector strikes – job destroying; FDI inhibiting
A serious concern, when systems collapse under….

- Patronage?
- Lack of focus on job?
- Little accountability?
- Etc
Will Husab and other mines lead to increased revenues – and can Windhoek constrain especially recurrent expenditures going forward after Tipeeg runs off?

Signing of an Economic Partnership Agreement (EPA) with the EU in 2014 – if not, impact on trade?

What is the impact of the drought? Good to see the recent rains!

Can Namibia manage to decrease inequality – or will there be a transfer from one elite to another?

How will the SACU funds pan out over the medium term?

Will oil (as opposed to Kudu gas) ever be found – offshore or onshore? Remember, the number of well drilled is small.

Will economic policies become more populist, post elections (does not seem so in medium term – but demonstration effect of Zimbabwe, and SA post 2014 elections?)
GDP composition

Private sector driver in recent years

Note also the TIPEEG impact
Real GDP growth has been positive...

- Source: EIU
- Growth will be boosted by infrastructure spending, and opening of new mines
..and relatively strong since 2000

Relative performance enviable: better than world and selection of many SSA peers; and also for small stares

What can be done to sustain and improve this performance?

Source: IMF 2014 country Article IV document
...but more could be done to boost competitiveness

Source: IMF 2014 country Article IV document
Consumer price inflation

- Source: EIU
- Rebased CPI basket introduced in October 2013
- Downward trend part of regional trend
Current account

Source: Bank of Namibia, Standard Bank Research
Direction and rate of change since 2010 of concern……

- Light still green – but amber is coming. And if get to red?

Source: IMF Article IV
### Government budget

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue (+grants)</td>
<td>35.9</td>
<td>36.8</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>42.6</td>
<td>41.3</td>
</tr>
<tr>
<td>- operational</td>
<td>33.3</td>
<td>32.0</td>
</tr>
<tr>
<td>- interest</td>
<td>2.0</td>
<td>2.3</td>
</tr>
<tr>
<td>- capital</td>
<td>7.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Budget balance (excl. Grants)</td>
<td>-4.5</td>
<td>-4.0</td>
</tr>
<tr>
<td>Budget balance (incl. Grants)</td>
<td>-4.3</td>
<td>-4.0</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance; Standard Bank Research

- Deficit 2014/5 higher than was expected by Standard Bank – forgot about the election? 5.4% is forecast by the Minister.
Reading between the IMF lines in their assessment

- Financially excluded percentage very high – to what extent financial firms or inequality the issue?
- Global competitiveness 92 out of 142 – and has slipped
- More work could be done on improving the fiscal position (especially SOEs: Air Namibia; SAA similar!)
- IMF and authorities agree on need to tighten current spending. IMF says need to speed up tightening wage and SOE transfer spending.
- Quality of spending needs to be improved
- Distortion impact of state wages on overall labour market (cf R10k state messenger, and R12k private sector teacher in JHB). After last year's salary increases are parastatals and the private sector finding any difference in ability to attract/retain skills?)
- Need to broaden tax base – and include tax expenditures (allowances, etc) in fiscal plans
- Need to cut the wage bill in public sector

Source: IMF Article IV
Whichever way it is cut, public sector is large…….

Share of Public Employment in total
(Average, 1995–2011)

Source: IMF Article IV
...and it is now hindering, not helping, unemployment

Is the private sector being crowded out of job creation?

Source: IMF Article IV
## Ease of doing business – Sub-Saharan rankings

<table>
<thead>
<tr>
<th>Economy</th>
<th>Ease of Doing Business Rank*</th>
<th>SSA rank</th>
<th>Starting a Business</th>
<th>Dealing with Construction Permits</th>
<th>Getting Electricity</th>
<th>Registering Property</th>
<th>Getting Credit</th>
<th>Protecting Investors</th>
<th>Paying Taxes</th>
<th>Trading Across Borders</th>
<th>Enforcing Contracts</th>
<th>Resolving Insolvency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauritius</td>
<td>20</td>
<td>1</td>
<td>2</td>
<td>22</td>
<td>1</td>
<td>7</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Rwanda</td>
<td>32</td>
<td>2</td>
<td>1</td>
<td>14</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>31</td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td>South Africa</td>
<td>41</td>
<td>3</td>
<td>7</td>
<td>1</td>
<td>27</td>
<td>15</td>
<td>5</td>
<td>1</td>
<td>4</td>
<td>7</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Botswana</td>
<td>56</td>
<td>4</td>
<td>12</td>
<td>11</td>
<td>13</td>
<td>2</td>
<td>11</td>
<td>7</td>
<td>6</td>
<td>23</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>Ghana</td>
<td>67</td>
<td>5</td>
<td>20</td>
<td>37</td>
<td>6</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>9</td>
<td>8</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Seychelles</td>
<td>80</td>
<td>6</td>
<td>16</td>
<td>10</td>
<td>25</td>
<td>9</td>
<td>40</td>
<td>9</td>
<td>2</td>
<td>2</td>
<td>13</td>
<td>3</td>
</tr>
<tr>
<td>Zambia</td>
<td>83</td>
<td>7</td>
<td>6</td>
<td>7</td>
<td>29</td>
<td>17</td>
<td>1</td>
<td>12</td>
<td>9</td>
<td>32</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Namibia</td>
<td>98</td>
<td>8</td>
<td>23</td>
<td>2</td>
<td>4</td>
<td>43</td>
<td>9</td>
<td>12</td>
<td>18</td>
<td>20</td>
<td>10</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Doing Business 2013, * = global overall rank (of 189); SSA – sub-Saharan Africa rank (of 47)
Budget  February 2014 - positives

- Strong growth in recurrent (29.1%) and development (17.6%) – total 26.7% y/y. Absorption capacity for this development expenditures? And further large allocation for salary increases and regrading - is 2014 an election year?

- Implementation rate – particularly in recurrent – is good. Focus 88.6% only in capital budget is lower than last year (and much lower than in recurrent)

- Good to focus on extending social grants; no increase to be made this year. Bold in election year!

- Continued focus on improving tax efficiency – some thought on decreasing rates (more?) for those who actually do comply over time?

- Deficit out-turn in 2013/14 positive – both SACU and other sources contributed. Perhaps more could have been done to get below 5.4% of GDP deficit in coming tax year

- Financing of deficit mainly in local market – will help to deepen and widen the debt market locally.

- Little in the way of tax surprises – cut in corporate rates announced implemented.

- Plan to build an autonomous revenue authority good in principle
Budget February 2014 - negatives

- No shift in personal tax rates to allow for inflation (although significant last year). Brave in election year?

- Recurrent spending – at 79% of total – is this the right focus? And even Minister is astonished at amount to be transferred to SOEs. Much of this is eg for infrastructure; but payment to Air Namibia is transfer from (poor) taxpayers to rich locals and foreigners who fly (In SA – we are onto 5th bailout of SAA in a decade)

- Quibble – will the forcing of local shareholding for tenders increase costs/decrease availability of goods/services – given size of local market? Understand the intention.

- Will the massive increase in recurrent expenditure not be inflationary? Why do civil servants get two years of significant salary growth?

- Planned deficit of 5.4% - after strong growth – is too large. What happens in downturn?

- Over MTEF – transfers to SOEs a staggering – Minister’s words – 16.3% of recurrent spending. Is this justified? Or, is there – high salaries for executives? Staff padding? Or?
Although there are some throwaways that suggests an eye on the election (high recurrent expenditure growth; salary increases, eg); the focus on education, health – and even development expenditure – suggests a focus on the medium term

The deficit is set high, particularly with high GDP growth expected – the out-turn may be lower (via lower development spending; better tax collections). SACU receipts a wild card – still over 30% of total revenues

Continued focus on education and health noteworthy

Disappointing that could not allow for fiscal drag – or increase for pensioners

Budget is a “steady as she goes” budget
Conclusion:
Progress with a Purpose
Conclusion

- Although GDP growth is expected to moderate, it is still expected to be above the world average
- Mining projects part of this – and part of the massive increase in FDI. But – compared to SA – Namibia very favourable in this area
- Broad thrust of the Budget is overall good. But over medium term need to ensure more bang for buck, and focus on efficient – but streamlined – civil service for provision of services
- Can quibble – no tax bracket relief; deficit too high; too much to SOEs – there is much in the Budget that suggests there will be much progress to inclusive growth. Greater focus – dare I say it – will be on fiscal sustainability – the second part of the theme for this Budget
- This Budget goes to achieve Progress with a Purpose. Over the medium term, progress is likely to continue to be fiscally sustainable, and support inclusive growth.