Economic Association of Namibia

PO Box 6148
Windhoek, Namibia
M +264 81 155 9775
F: +264 88 622 267
E: info@ean.org.na
W: www.ean.org.na

Are we in for another perfect storm? - Klaus Schade

Emerging markets have come under severe pressure recently, partly owing to global events and partly to domestic – mainly policy – issues. The Argentinian peso lost about 50% of its value against the US dollar forcing the central bank to raise interest rates to 60%. The Turkish lira lost 40%. Following suit is the South African rand and hence the Namibia dollar that shed about a quarter of its value against the USD so far this year. The technical recession in South Africa is expected to put further pressure on the ZAR.

Interest rate hikes in the US, expected hikes in the UK and in 2019 in the EU coupled with multilateral trade war, unfinished business regarding the future of the North American Free Trade Area (NAFTA) as well as continuing uncertainties regarding the exit of the United Kingdom from the European Union has dampened global including China growth prospects and consequently demand for commodities resulting in declining prices and therefore dropping demand for currencies of commodity exporters, while increasing demand for in particular USD owing to a more attractive interest environment.

Namibia will not be spared the fallout. Despite fiscal consolidation efforts, fiscal space to respond to external shocks remains limited. The depreciation of the NAD will increase the value of existing foreign debt, unless denominated in ZAR, and the debt to GDP ratio. The trade deficit is not declining despite new mines having started production and might come under more pressure owing to the depreciation of the NAD. Inflation is on an upward trend, although well within the band of 3% to 6%, reducing consumers' purchasing power and hence domestic demand. While the depreciation might benefit revenue from custom duties because of higher import values in local currency, the technical recession in South Africa dampen import demand and result in declining custom revenue and hence transfers from the SACU Common Revenue Pool. Although foreign exchange reserves at the end of July were at the highest level since almost a year translating into an import cover of 3.9 months, the above mentioned factors will exert pressure on the reserves.

While Namibia cannot influence the global demand for and hence prices of commodities and neither the exchange rate that is determined by politics in and the economic performance of South Africa, there is some policy space left, such as: Stronger shift of budgetary allocation from consumption towards building productive assets; ensure that infrastructure projects benefit Namibian producers of goods and services to the extent possible in order to create jobs and increase tax revenue; attract and direct domestic and foreign investment towards processing and manufacturing activities without duplicating existing, sufficient supply capacities in line with the sectoral growth strategies and focusing on future technologies; and abolish visa requirements for leisure tourists and business people alike, whose daily expenditure exceed any revenue from visa fees by far.

Published in Business 7 – 12 September 2018

german cooperation
DEUTSCHE ZUSAMMENARBEIT
Supported by giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

The EAN Business 7 contribution is compiled by EAN Research Associate Klaus Schade and is financially supported by the Government of the Federal Republic of Germany through the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) The EAN Commentaries can be downloaded from www.ean.org.na.