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Fuel price increase Oct. 2018 – Large under-recoveries result in price hikes

The Ministry of Mines and Energy announced on 28 September 2018 a fuel price increase of NAD0.50 per litre for petrol and diesel countrywide with effect of 3 October 2018 midnight.

Two factors continue to contribute to the upward price pressure: the depreciation of the Namibia dollar against the US dollar and rising global oil prices.

- Based on daily South African Reserve Bank exchange rates, the Namibia dollar weakened by 4.8% against the US dollar between August (monthly average of NAD14.063 per USD) and September 2018 (monthly average of NAD 14.7904 per USD). In addition, monthly average oil prices in US dollar for Europe Brent oil increased by 7.8% to USD78.09 per barrel between August and 24 September 2018. It is the highest monthly average oil price since November 2014 and 39.1% higher than a year ago.
- The combined effect of currency depreciation and higher global oil prices resulted in the cost of oil in Namibia dollar increasing in September 2018 by 13.0% compared to August 2018 and by 56.6% compared to September 2017.
- The steep increase in the cost of landing refined oil at Walvis Bay resulted in under-recoveries, meaning the actual cost of oil exceeded the pump price at Namibian service stations. The under-recoveries amounted to NAD131.505 cents per litre for petrol and NAD144.494 per litre for diesel 50ppm. These are the largest under-recoveries so far this year, bringing total under-recoveries to NAD440.507 cents per litre and NAD418.879 cents per litre for petrol and diesel 50ppm respectively since May 2018.
- The fuel price increases cover only 38% (petrol) and 34% (diesel) of the under-recoveries. The largest share of the under-recoveries is absorbed by the National Energy Fund that is amongst others funded by the NEF fuel levy and over-recoveries (see EAN Commentary 2018/06, 2 Aug. 18 for more details). Since May 2018, the NEF has subsidised the fuel price by NAD255.507 cents per litre and NAD233.879 cents per litre for petrol and diesel respectively. In other words, without the NEF petrol prices would be some NAD2.56 per litre and diesel prices some NAD2.34 per litre higher than they will be from 3 October 2018.
- Petrol prices will be 15.4% higher than at the beginning of the year and 24.7% higher compared to October 2017. The increases amount to 17.8% and 29.5% respectively for diesel 50ppm.
- While Namibians are facing the highest petrol and diesel prices so far, they are still below prices in South Africa. South Africans have to pay ZAR15.49 per litre at the coast and ZAR16.08 per litre in Gauteng for petrol.

The Namibia dollar has regained some ground against the US dollar since the first week of September and hold steady despite the interest rate hike on 26 September 2018 by 25 basis points in the USA. Further interest rate increases are expected on a quarterly basis, which will maintain pressure on in particular emerging market currencies.

Oil prices have exceeded USD80.00 per barrel towards the end of September, despite pressure by the US administration in particular through Saudi Arabia on OPEC to increase output in order to prevent prices to rise further. However, Saudi Arabia and Russia, a non-OPEC oil exporting country, are cooperating more closely and are withstanding the pressure. The USA might release some strategic oil reserves before the mid-term elections in order to please their motorists. The main root causes of rising oil prices are the withdrawal of the USA from the Iran deal and the re-implementation of sanctions against the country as well as the turmoil in Venezuela that resulted in a drop in oil production.

The strong price increases on the global market and the domestic market put substantial pressure on businesses due to cost increases and on consumers that have to spend more on fuel, unless they change their behaviour, and have therefore less disposable income. There are already concerns globally that the pace of oil price increases could result in a significant slow-down of the global economy, since both producers and consumers have little time to adjust production and consumption to these hikes.

As in the past months, the fuel price increase will push transport inflation higher into double-digit figures, which will ultimately contribute to rising inflation rates. Motorists need to explore ways to use transport equipment more efficiently in order to cushion against rising costs of transport.