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## **Fuel price increase Sep. 2018 – National Energy Fund continues to subsidise motorists**

The Ministry of Mines and Energy announced a fuel price increase of NAD0.40 per litre for petrol and diesel countrywide on 3 September 2018 with effect of 5 September 2018 midnight.

- The reason for the price hike is the depreciation of the Namibia dollar against the US dollar. The Namibia dollar depreciated by 6.6% from NAD13.43 per US dollar in July to NAD14.11 per USD in August (calculated on daily exchange rates of the South African Reserve Bank). The depreciation outweighed the drop in average Brent Crude oil prices from USD74.25 per barrel in July to USD71.69 per barrel in August (US Energy Information Administration daily data) and resulted in an increase of oil prices in Namibia dollar from on average NAD997.17 in July to NAD1,011.33 per barrel in August.
- It is the fourth consecutive monthly fuel price increase for the country except for Walvis Bay, which was spared the adjustment in the transportation cost in July.
- Petrol prices are up by 11.2% and diesel prices by 13.6% since the beginning of the year. Petrol is 20.2% and diesel 25.0% more expensive than in September 2017.
- Since June 2018, fuel prices in Namibia have exceeded previous price peaks experienced four years ago. Motorists had to pay NAD12.51 per litre for petrol and NAD13.05 per litre for diesel 500ppm in June 2014. However, taking inflation into account over the same period real fuel prices are below levels in September 2014.
- Since April 2018, the National Energy Fund incurred under-recoveries (pump prices were below actual costs) of Namibia cent 324.63 per litre for petrol and of Namibia cents 310.51 per litre for diesel 50ppm. Fuel price increases recovered only Namibia cents 100.00 per litre for petrol and Namibia cents 130 per litre for diesel 50ppm. Resulting in a subsidy of Namibia 224.63 and Namibia cents 180.51 per litre respectively.

The continuation of the depreciation of the NAD against major currencies as well as oil supply-side uncertainties owing to the sanctions threatened by the US administration on Iranian oil from November onwards are likely to exert further upward pressure on domestic fuel prices. So far, the National Energy Fund (NEF) has absorbed the bulk of under-recoveries in recent months. However, the NEF only smooths strong price fluctuations, but will not avoid price rises if import costs of oil exceed pump prices over a longer period. Motorists therefore need to prepare for further fuel price increases.

The fuel price hike combined with the increase in taxi fares will push up transport inflation in September and hence the overall inflation rate.

The price increases can encourage a more efficient use of transport equipment, the switch to more fuel-efficient equipment or the shift to equipment fuelled by other forms of energy, such as batteries.