

POLICY BRIEF: ISSUE 1

IMPACT OF THE RUSSIA-UKRAINE CONFLICT ON THE NAMIBIAN ECONOMY



UNDP NAMIBIA

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1.0 Background

The Russian Federation and Ukraine are two big players in the global supply of key agricultural products such as food products and fertilizers, as well as in the oil, gas, and mining industries. In 2021, either of the two countries, or both, ranked amongst the top three global exporters of wheat, maize, rapeseed, and sunflower oil and seeds. For instance, the Russian Federation stood as the world's top exporter of wheat and nitrogen fertilizers, the second leading exporter of potassium fertilizers, and the third largest exporter of phosphorus fertilizers.¹ On other hand, Ukraine came as the highest producer of sunflower oil in the global economy, with the Russian Federation coming second.² In terms of crude oil production, the Russian Federation comes third in the world after the United States and Saudi Arabia.³

Given the strategic position of the Russian Federation and Ukraine in the global export markets of key commodities, and the interconnectedness of the world, the ongoing conflict between the two countries is bound to have a significant impact on the economies of countries, especially those that are highly dependent on them for the imports of food products, fertilizers, and petroleum products. This includes those in least developed countries, low-income food deficit countries, and emerging economies and upper middle-income countries.

The conflict comes at a time when the world including Africa is gradually recovering from the adverse impacts of the COVID-19 pandemic including the high international food

and fertilizer prices. Therefore, the Russia-Ukraine conflict will potentially trigger several socio-economic threats that will further challenge economic growth and the achievement of the 2030 Agenda for Sustainable Development for the continent. Namibia is no exception to this reality as an upper middle-income country. The conflict's adverse impacts such as uncertainty in global financial markets and supply-chain disruptions of vital food and crude oil products present major challenges for Namibia, which is already reeling under the impact of COVID-19 and economic deceleration. The conflict will potentially enhance already existing socio-economic challenges linked to food insecurity and elevated poverty, inequality, macroeconomic instability, and unemployment. Recent citizen unrests in the country are an added cause of concern.⁴

While it is still early to fully assess the medium-to long-term impact of the Russian-Ukraine conflict on the Namibian economy and the population, its emerging short-term impact in this policy brief has been assessed through the following channels: economic growth, supply of key commodities and their prevailing prices, the diamond mining sector, and the fiscal environment and debt management of the country. Effort has been made to also advance policy recommendations that can be adopted by the Government of Namibia to help mitigate any negative impact that have been caused by the conflict.

¹ FAO (2022). Information Note: The importance of Ukraine and the Russian Federation for global agricultural markets and the risks associated with the current conflict. 25 March 2022 Update.

² The Observatory of Economic Complexity (2020). Sunflower seed or safflower, crude. <https://oec.world/en/profile/hs/sunflower-seed-or-safflower-crude>.

³ Investing News Network (2022). Oil and Gas. Top 10 oil-producing countries (Updated 2022). <https://investingnews.com/daily/resource-investing/energy-investing/oil-and-gas-investing/top-oil-producing-countries/>

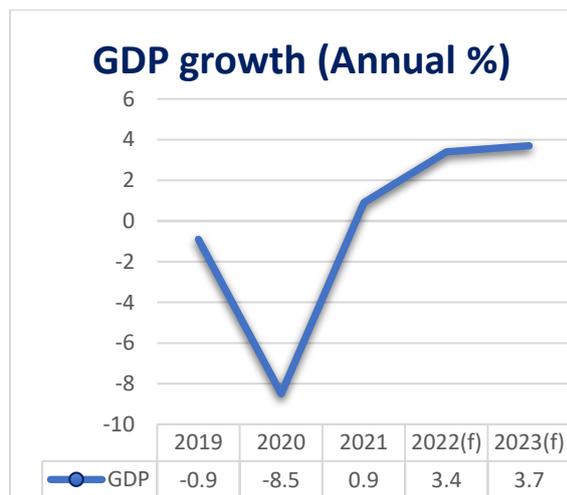
⁴ New Era (2022). Analysts predict unrest in absence of employment. <https://neweralive.na/posts/analysts-predict-unrest-in-absence-of-employment>

2.0 Potential impact on economic growth

2.1 GDP Growth

Namibia, much like other African countries, is facing challenges of recovering its economy from the negative impacts of the COVID-19 pandemic. This is attributed largely to global and local supply chain disruptions, layoffs, and spreading of uncertainty across the economy. This in turn, has led to reductions in consumer spending, business investment, and government and trade related revenue.⁵ The situation dampened the rate of economic growth in the economy and resulted in inflated prices for energy and food products, as well as imported commodities, and impact on primary commodity exports, leading to a contraction in GDP growth of 8.5% in 2020 (see Figure 1).

Figure 1: GDP Growth (Annual %)



Source: Bank of Namibia, 2022-Data for 2022 and 2023 are forecasts

Namibia's slow economic recovery of 0.9 % in 2021 and the recent growth forecasts of 3.4% and 3.7% for 2022 and 2023,⁶ respectively, present a steady and optimistic growth recovery pathway for the country compared to the preceding years (see Figure 1). The positive

outlook is contingent on good performance in various industries including the diamond mining sector, which has been estimated by the Bank of Namibia to increase by 26.2% and 16.5% in 2022 and 2023, respectively.⁷ These projections were made prior to the unexpected Russia-Ukraine conflict.

The evolving Russia-Ukraine conflict is likely to push the Namibian economy in a downward direction if those industries that are envisaged to spur economic growth are negatively impacted. If such happens, it will further deepen the socio-economic challenges the country is already experiencing especially with regards to severe multidimensional poverty of 43.3%⁸; a high fiscal deficit of 8.6% of GDP for fiscal year 2021/2022, which has been projected to reduce to 5.6% of GDP in fiscal year 2022/2023⁹; high youth unemployment of 46.1%¹⁰; and high inequality level of 56.0.¹¹

3.0 Potential impact on supply of key commodities and implications on prices

As noted earlier, Russia and Ukraine are amongst the most prominent players in global trade and producers of food and agricultural products including wheat, sunflower oil and seeds, barley, and fertilizers. The two countries account for 18% and 9% of the global wheat exports; 17% and 36% of sunflower oil and seeds exports; and 12% and 11% of barley exports, respectively, (see Figure 2).¹² In addition, it is estimated that nearly 50 countries source 30% of their wheat imports from the two countries.¹³

⁵ United Nations in Namibia (2020). Socio-Economic Impact Assessment of COVID-19 in Namibia

⁶ Bank of Namibia, 2022. Economic Outlook update. Bank of Namibia. Ministry of F

⁷ Bank of Namibia, 2022. Economic Outlook update. Bank of Namibia.

⁸ Namibia Statistics Agency (2021). National Multidimensional Poverty Index (MPI) for Namibia for 2021.

⁹ Ministry of Finance (2022). Budget Statement for the 2022/2023 Financial Year. 24 February 2022.

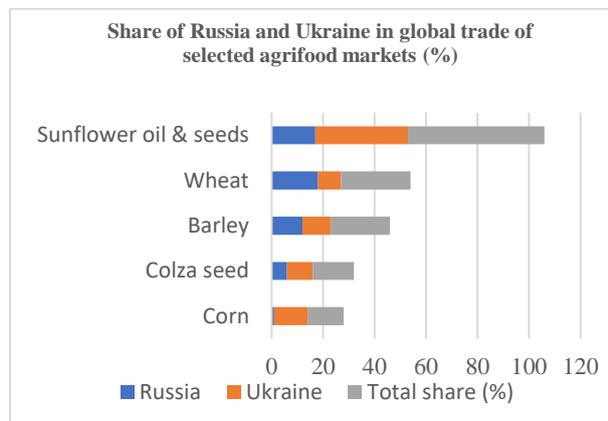
¹⁰ Namibia Statistics Agency (2018). The Namibia Labour Force Survey 2018 Report.

¹¹ Namibia Statistics Agency. Namibia Household Income and Expenditure Survey (HIES) 2015/2016 Report.

¹² UNCTAD (2022). The Impact on Trade and Development of the War in Ukraine. UNCTAD Rapid Assessment.

¹³ FAO (2022). Impact of the Ukraine-Russia conflict on global food security

Figure 2: Share of selected products of Russia and Ukraine in global agri-food markets (%)



Source: UNCTAD, 2022 (based on 2020 data from United Nations Comtrade database)

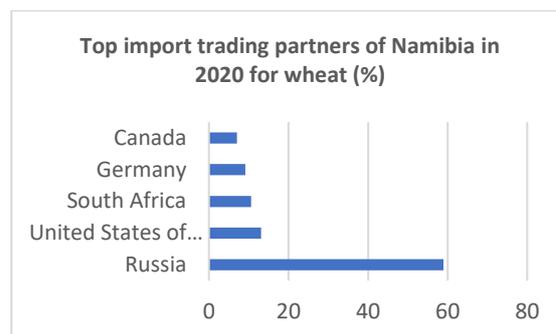
A key impact of the conflict is a steep reduction of wheat and sunflower oil exports from both countries, which is causing further challenges for food security in countries that depend heavily on them for their imports. Namibia is one of such countries that is heavily dependent of wheat imports from the Russian Federation.

In 2020, Namibia imported nearly 60% of wheat from the Russian Federation (see Figure 3).¹⁴ In 2021, this number increased to 64% of wheat imports from the Russian Federation.¹⁵ The situation is now evolving into inflationary pressures for many Namibians, with the price of food and other products increasing on the local market. Market conditions, prior to the conflict, already presented high food prices, which have become even more volatile due to the ongoing conflict.

¹⁴ TrendEconomy (2021). Annual International Trade Statistics by Country (HS02).

¹⁵ FAO (2022). Impact of the Ukraine-Russia conflict on global food security.

Figure 3: Top import trading partners of Namibia in 2020 for wheat (%).



Source: TrendEconomy, 2021

Considering the inflation of wheat products due to supply chain constraints being experienced, this could enhance food insecurity in the country, especially for Namibia's most vulnerable communities, thus ultimately forcing them to find alternatives that might not be nutritionally beneficial.

According to the Namibia Statistics Agency, imports from Russia have moderately declined from 1.3% in January to 0% in March (see Figure 4).¹⁶ This could be a manifestation of disruptions in trade between Namibia and Russia because of the conflict. During the same period, Namibia did not appear to have any direct imports link between itself and Ukraine, especially for wheat imports, as demonstrated in Figures 3 & 4.

¹⁶ Namibia Statistics Agency, 2022. Namibia Trade Statistics March 2022.

Figure 4: Namibia Wheat Imports from Russia and Ukraine.



Source: Namibia Statistics Agency, 2022

3.1 Fertilizer supply

Russia is a key exporter of fertilizers and plays a leading role in global markets of exportable agricultural supplies. In 2020, the country contributed 14% of globally traded urea (the most widely applied nitrogen fertilizer), 11% of MAP and DAP (the most widely applied phosphorus fertilizer), and, jointly with Belarus, contributed about 41% of all traded MOP (the most widely applied potassium fertilizer).¹⁷

Several low-income food deficit countries are dependent on the imports of fertilizers. In view of the conflict, the concentration of fertilizer imports for these countries could intensify their markets vulnerability to shocks.¹⁸ High fertilizer prices will limit farmers' access and agricultural productivity, which may result in farmers reducing their outputs or passing high production costs to consumers in the form of higher prices for agri-food products.

¹⁷ Hebebrand, C. and Laborde, D. (2022). High fertilizer prices contribute to rising global food security concerns. IFPRI Blog. <https://www.ifpri.org/blog/high-fertilizer-prices-contribute-rising-global-food-security-concerns>.

¹⁸ FAO (2022). Impact of the Ukraine-Russia conflict on global food security.

¹⁹ Hebebrand, C. and Laborde, D. (2022). High fertilizer prices contribute to rising global food security concerns. IFPRI Blog.

The conflict, the economic sanctions it triggered on Russia, and disruptions in the Black Sea trading routes have further increased trade costs and uncertainty about international fertilizer trade.¹⁹ Prior to the conflict, the Southern Africa region was already heavily dependent on imports for its supply of fertilizers. According to the UN Comtrade data for 2020, South Africa imported 11% of its fertilizers from Russia and Namibia only 4%. Although Namibia depends less on fertilizer imports from Russia, it imports 98% of its fertilizers from South Africa.²⁰ The high dependency on South Africa for fertilizer makes the country vulnerable to economic shocks caused by the conflict, which will further disrupt agricultural processes and productivity in Namibia. This will mean further high costs for food, thus a high potential for food insecurity crisis for the country.

3.2 Domestic inflation

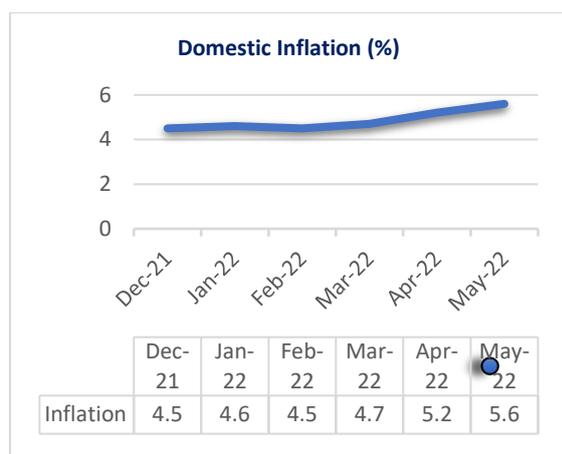
Namibia's annual average inflation rate has accelerated from 2.2% in 2020 to 3.6% in 2021.²¹ This is mainly attributed to rising cost of petrol, food, and housing. Domestic inflation was recorded at 4.6% in January 2022 and marginally declined to 4.5% in February 2022 due to lower inflation for transport and food, while housing inflation remained stagnant (see Figure 5).

<https://www.ifpri.org/blog/high-fertilizer-prices-contribute-rising-global-food-security-concerns>.

²⁰ World Food Programme, 2022. *Food Security Implications of the Ukraine Conflict for the Southern Africa Region*. World Food Programme.

²¹ Bank of Namibia (2022). Namibia Inflation Forecast Report. Bank of Namibia

Figure 5: Domestic Inflation (%)

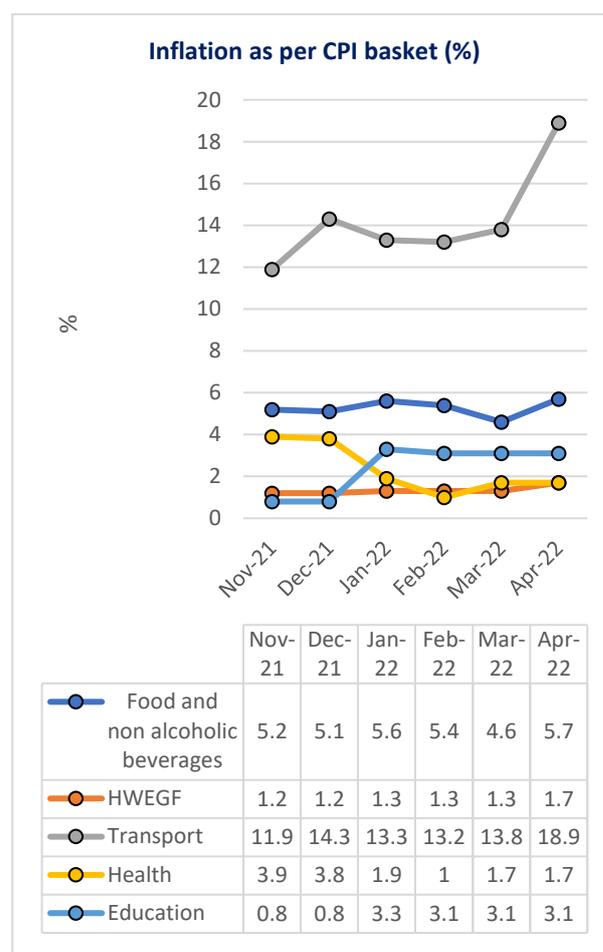


Source: Bank of Namibia, 2022-Data for March, April and May 2022 are forecasts

Inflation has been projected to increase to 5.6% in May, which can be attributed to the impact of the Russia-Ukraine conflict on account of supply constraints of key commodities such as food and petroleum products in the Namibian economy (see Figure 5).

In contrast to the annual domestic inflation, transport, food, and non-alcoholic beverages experienced the highest inflationary price increases in April and are also seen as the main drivers of the annual inflation rate (see Figure 6).²² In view of supply chain disruptions and inflationary pressures on Namibian consumers, caused by the impact of the conflict, this is likely to limit their ability to access food, transport, health, and education services. The situation could be dire in low-income households due to their low purchasing power and vulnerable state in relation to further economic shocks.

Figure 6: Inflation as per CPI basket



Source: Namibia Statistics Agency, 2022

The rising supply chain disruptions present a potential spike in domestic inflation due to the increase in commodity prices in the global market. This has the potential to invoke action from the Bank of Namibia to increase the interest rate in a drive to curtail rising inflation. Such action, in the short-term, could present a bleak outcome for the economy in terms of its ability to attract investment, reduce poverty and inequality, achieve macroeconomic stability, and create decent employment and wealth for all Namibians, especially its vulnerable youth amongst which 46.1% are unemployed.²³

3.2 Crude oil prices

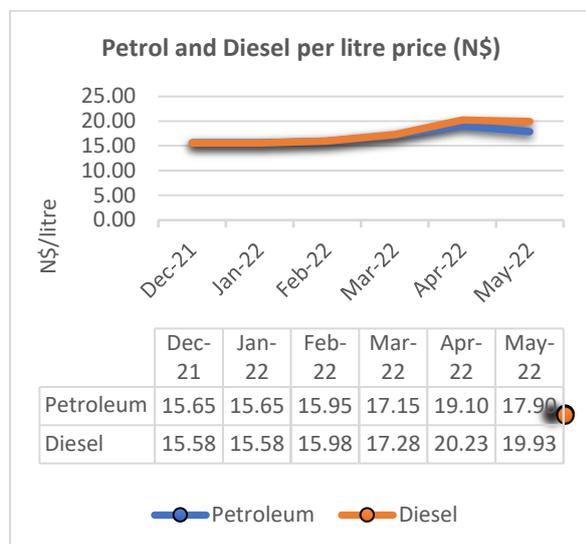
Crude oil is one of the commodities negatively affected by the conflict, resulting in the upward

²² Namibia Statistics Agency, 2022. *Namibia Consumer Price Index, April 2022*. Windhoek.

²³ Namibia Statistics Agency (2018). *The Namibia Labour Force Survey 2018 Report*.

direction of crude oil prices due to supply constraints of the product in the global economy, especially at the onset of the conflict.

Figure 7: Petrol and Diesel per litre price



Source: Ministry of Mines and Energy, 2022

This exponential increase in crude oil prices is clear in Namibia, where petrol and diesel prices have increased by N\$3,15 and N\$4,25²⁴, respectively, between February and April 2022 (see Figure 7). The rise in the prices of petrol and diesel have also triggered price increases in food and non-food commodities due to high transportation costs. This has the potential to also impact on the housing market through hike in the prices of building materials and possibly mortgage and rent. Although the petrol and diesel prices have started to decline in May, the uncertainty of the outcome of the conflict still provides a volatile environment for global crude oil prices with serious impact on the Namibian economy due to its high dependence

green hydrogen a year from five gigawatts of renewable energy generation capacity and a three-gigawatt electrolyzer.²⁵

3.3 The diamond mining sector

Namibia's economic growth largely depends on its mining industry, as well as the tertiary sector. A key product within the industry is the diamond mining sector. At the early stages of the conflict, authorities in the Bank of Namibia expressed fear that the sector could face challenges due to sanctions imposed on Russia for its military incursion in Ukraine. Russia is a big player in the diamond mining industry, contributing 30.5% of global production.²⁶ The fear, however, was allayed by De Beers Group that assured the government that there are distinctive ways to identify diamonds emerging from various countries, hence they did not expect any negative impact on the sector. The situation could, therefore, be used as an opportunity for the country to benefit from any potential increase in global prices of primary commodities to support the recovery of the economy and the growth projections estimated for the diamond industry and other mining products.

4.0 Impact on the fiscal environment and debt management situation

The predicted rise in inflation due to the conflict has caused an increase in global interest rates, thus further causing debt management stress on countries with high debt burden such as Namibia, whose public debt stock has been projected to increase to N\$140 billion in the

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