



#### BON ECONOMIC DISCUSSION NOTE1

# A REVIEW OF THE IMPACT OF THE RUSSIA-UKRAINE WAR ON NAMIBIA'S IMPORTS, FROM THE PERSPECTIVE OF THE THREE Fs - FUEL, FOOD AND FERTILIZERS

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# RESEARCH AND FINANCIAL SECTOR DEVELOPMENT DEPARTMENT

The note reviewed how the geopolitical conflict between Russia and Ukraine impacted Namibia's imports of food, fuel and fertiliser during the first quarter of 2022. The trade relations between Namibia and Ukraine and Russia remains negligible relative to Namibia's total trade. Despite the total trade with Russia and Ukraine being low, imports of cereals and fertilizers from Russia had a significant share on Namibia's total cereal and fertilizers imports. The war in Ukraine impacted Namibia's trade balance indirectly and mainly via two channels: commodity prices and supply-chain disruptions. As a result, higher commodity prices, especially for fuel, food and fertilizers contributed to the deterioration in the trade balance as well as higher inflation during the first quarter of 2022.

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<sup>2</sup> The views expressed in this note are those of the authors and do not necessarily reflect those of the Bank of Namibia. For helpful comments, the authors thank the colleagues from the Research and Financial Sector Development Department.





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#### 1. Introduction

The conflict between Russia and Ukraine has substantially impacted commodity and financial markets. Whilst the world was recovering from a COVID-19 induced recession, many countries are now facing strong headwinds from the geopolitical tension between Russia and Ukraine. The effect of the war caused turmoil in commodity prices and volatility in financial markets which exerted downward pressure on the recovery of the global economy while pushing up inflation.

Russia and Ukraine are among the major exporters of agricultural and mineral commodities in the world. This includes sunflower oil, barely, wheat, maize, mineral fuels, fertilizers, wood and charcoal as well as diamonds. For the period 2016 to 2021, the combined production for sunflower oil for the two countries was on average more than half of the global output. Moreover, the combined contribution of Russia and Ukraine to global production of barley, wheat and maize stood at 19.0 percent, 14.0 percent and 4.0 percent, respectively over the same period. These two countries also play a significant role in the production and export of lumber, neon gas, aluminium, nickel, titanium, palladium, iron, and steel. Therefore, a surge in commodity prices attributable to the war has a material impact on global growth (KPMG, 2022). According to the International Monetary Fund (IMF) a 10.0 percent increase in the oil price that is entirely supply-driven can translate into a decrease in world GDP by between 0.1 and 0.2 percent.

The invasion of Ukraine by Russia has trigged the IMF, OECD and UNCTAD to downgrade their global growth forecast for 2022. Global growth is projected to slow from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 (IMF, 2022), below the 4.3 percent that was foreseen before the invasion. The Organisation for Economic Co-operation and Development (2022), similarly projects a slower growth rate in 2022 of 4.5 percent and 3.2 percent in 2023. The United Nations trade and development (2022) body also downgraded its global economic growth projection for 2022 to 2.6 percent from 3.6 percent.

As a net importer of mineral fuels, fertilisers, and food, Namibia could not escape the fallout from the conflict. The high share of mineral fuels, fertilisers, and food in Namibia's total imports makes the country vulnerable to fluctuations in the international markets for these product groups, as has been the case following Russia's invasion of Ukraine. For example, mineral fuel import payments by Namibia constituted at least 22.4 percent of total imports for the first three months of 2022 compared to 14.7 percent during the same period last year. The invasion of Ukraine by Russia had a notable impact on imports of fertilisers and food over the same period due to the surge in commodity prices. The high commodity prices push up inflation, which in turn erodes the value of disposable income and weigh down aggregate demand.

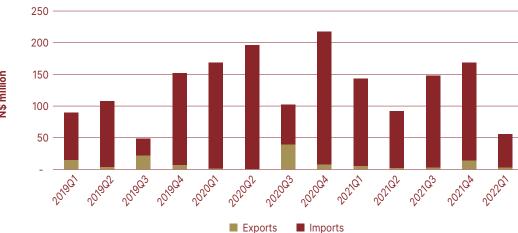
The note reviews how the geopolitical tension between Russia and Ukraine affected the three "Fs" in Namibia. It is deemed imperative to first take stock of the trade relations between Namibia and Ukraine/Russia before reviewing the data on imports related to fuel, food, and fertilisers with the aim of establishing the impact of the war on the Namibia's trade balance.

#### 2. Namibia's Trade with Russia and Ukraine

Namibia's direct trade with both Russia and Ukraine remains negligible relative to Namibia's total trade. In 2021, the share of imports from Russia in total imports was 0.6 percent, while exports to Russia was only 0.1 percent of total exports. Meanwhile, Ukraine accounted for 0.01 percent and 0.002 percent of Namibia's imports and exports respectively, during 2021. Although Namibia's trade exposure to Russia and Ukraine is very low in terms of total trade, the picture changes if the focus shifts to two specific goods, namely cereals and fertilizers. The share of cereals and fertilizers imported from Russia was 30.6 percent and 4.8 percent of total imports of these two product groups, respectively, in 2021. When compared to the first quarter of 2021, total trade with Russia fell by more than 60 percent during the first quarter of 2022, reflecting the impact of sanctions on Russia following her invasion of Ukraine (Figure 1). The SWIFT<sup>3</sup> settlement system related sanctions on Russian banks have also been a serious challenge to domestic importers and exporters in terms of payments.

<sup>3</sup> SWIFT – or the Society for Worldwide International Financial Telecommunications – is a system that banks use to securely send messages to each other. It is one of the key pillars of the financial world, connecting more than 11,000 member banks in some 200 countries and territories globally.

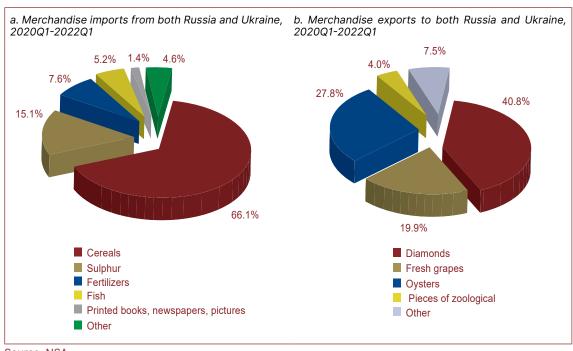
Figure 1: Total trade with Russia and Ukraine



Source: NSA

Between 2020Q1 and 2021Q4, Namibia's imports from Russia and Ukraine consisted mainly of cereals, sulphur and fertilizers. Namibia's top import product from Russia and Ukraine between 2020Q1 and 2021Q4 was cereals, mainly in the form of wheat, which on average accounted for a share of 66.1 percent of total imports from both countries (Figure 2a). During the first quarter of 2022, however, imports of cereals from Russia fell drastically to zero, now mainly sourced from South Africa, Poland and Latvia. The second most imported product from Russia was sulphur, with a share of 15.1 percent between 2020Q1 and 2021Q4. Sulphur imports from Russia, however, declined over the review period as some of the local mines<sup>4</sup> began to source sulphur from alternative markets such as Qatar. The third key import product from Russia was fertilizers, which accounted for 7.6 percent, consisting mainly of ammonium nitrate which is primarily used by the mining sector for the precipitation of uranium into yellow cake. For the first quarter of 2022, ammonium nitrate imports amounted to N\$131.5 million, of which N\$50.1 million was imported from Russia. Other imports from Russia and Ukraine include industrial fish (herrings, brisling and sprats) and printed books with a share of 5.2 percent and 1.4 percent, respectively (Figure 2a).

Figure 2 (a-b): Namibia's merchandise trade by product with Russia and Ukraine



Source: NSA

<sup>4</sup> The sulphur is mainly imported by firms in the mining industry, specifically in the uranium industry where it is used as leaching liquid to extract the minerals from the ore.

In terms of exports, Namibia's key export products to Russia and Ukraine were mainly polished diamonds, fresh grapes and oysters. Polished diamonds took the largest share of about 40.8 percent, followed by oysters and fresh grapes with a share of 27.8 percent and 19.9 percent, respectively (Figure 2b). During the first quarter of 2022, exports to Russia and Ukraine declined significantly relative to the same period last year, on the back of lower export of oysters and fresh grapes. The quarterly decline in fresh grape exports reflects the seasonal effects, as Namibia's grape harvest season occurs during the fourth quarter of each year.

### **Developments in the three Fs**

#### **3.1** Fuel

Amidst the global recovery from the COVID-19 pandemic, international oil prices have been on the rise since April 2020 and have now been exacerbated by the Russia-Ukraine war. International Brent crude oil prices rose by 56.8 percent over the twelve months from January 2021 to close at US\$85.53 per barrel in January 2022, mainly on the back of a recovery in global demand. Following Ukraine's invasion by Russia on 24 February 2022, and the subsequent sanctions on Russia, the international oil prices rose sharply further, on the back of supply disruptions given that Russia is among the largest oil exporters, coupled with a rise in refinery costs, owing to a loss in refinery capacity since 2020. Consequently, Brent crude oil prices rose sharply since February 2022, rising by a further 17.4 percent to US\$112.37 per barrel during May 2022. The rise in fuel prices stemming from the war has a negative impact on the trade balances of fuel-importing countries and is constraining real disposable income and may consequently reduce consumption and investment.

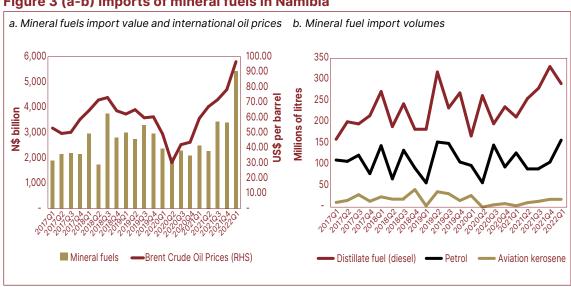


Figure 3 (a-b) Imports of mineral fuels in Namibia

Higher international oil prices have since manifested in the Namibian economy through an elevated bill for mineral fuel. Mineral fuel makes up a substantial share of total imports and has been a major contributor to Namibia's merchandise trade deficit and subsequently the current account deficit. Namibia's mineral fuel imports as a percentage of total imports rose from 14.7 percent in the first quarter of 2021 to 22.4 percent in the first quarter of 2022 (Figure 3a). The higher international oil prices resulting from the Russia-Ukraine war as well as the rise in volumes imported exerted upward pressure on the import bill for mineral fuels. Consequently, Namibia's mineral fuels import payments rose by 119.6 percent to N\$5.4 billion during the first quarter of 2022 relative to the first quarter of 2021.

The volumes of mineral fuels<sup>5</sup> imported have reverted to pre-pandemic levels, reflecting a recovery in the domestic economic activity. The key mineral fuel products imported into Namibia are diesel, petrol, and aviation kerosene with a combined import volume of about 1.4 billion litres per annum on average between 2017 and 2021 (Table 1). In 2021, Namibia's imports of mineral fuels amounted to 1.54 billion litres, compared to 1.30 billion litres in 2020 and 1.56 billion litres in 2019, respectively. Over 70 percent of the country's mineral fuel imports was diesel in 2021 which is a significant intermediate input in key sectors such as mining, fishing, electricity generation, and agriculture. During the first quarter of 2022, mineral fuel volumes imported rose by 35.9 percent to 465.8 million litres year-on-year on the back of an improvement in the domestic economy activity, particularly in sectors such as mining, wholesale and retail trade, transport, and tourism. Imports of aviation kerosene or jet fuels also rose in line with the increased frequency of flights to and from Namibia as the number of both international and regional tourist arrivals increased. Namibia's imports of mineral fuels from Russia were relatively minimal between 2019Q1 and 2022Q1, amounting to N\$3.7 million. The last time Namibia imported mineral fuels from Russia was 2019Q3.

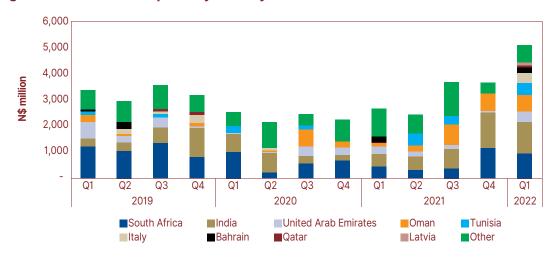
Table 1. Mineral fuels import volumes and values, 2021-2022

	Millions	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1
Distillate fuel (diesel)	Volumes (litres)	212	255	280	331	291
	Value (N\$)	1,267	1,795	2,025	2,836	3,003
Petrol	Volumes (litres)	128	90	91	106	158
	Value (N\$)	740	671	695	881	1,578
Aviation kerosene	Volumes (litres)	3	11	14	18	18
	Value (N\$)	21	72	103	143	175
Total imports	Total volume (litres)	343	356	384	455	466
	Total value (N\$)	2,028	2,538	2,823	3,861	4,756

Source: NamRA

The total value and volumes in this Note relate only to distillate fuel (diesel), petrol and aviation kerosene. Therefore, it is not the total mineral fuels which includes lubricants, petroleum jelly, paraffin wax etc.

Figure 4. Mineral fuel imports by country



Between 2019Q1 and 2022Q1, Namibia's mineral fuel imports were mainly sourced from South Africa, India, Oman and United Arab Emirates. Since 2019, on average, 63.8 percent of Namibia's mineral fuels imports was sourced from these four countries, with South Africa and India being the top two sources of mineral fuel imports during the review period (Figure 4). Out of Namibia's N\$5.9 billion mineral fuel imports during the first quarter of 2022, the share of India and South Africa

<sup>5</sup> The total value and volumes in this Note relate only to distillate fuel (diesel), petrol and aviation kerosene. Therefore, it is not the total mineral fuels which includes lubricants, petroleum jelly, paraffin wax etc.



amounted to N\$1.2 billion and N\$1.1 billion, respectively. Following Ukraine's invasion by Russia and the subsequent sanctions on Russian oil, Namibia's sources of mineral imports has since expanded with imports from countries such as Tunisia, Italy, Bahrain, Latvia and Qatar gaining momentum.

#### 3.2 Food

The ongoing war in Ukraine has further exacerbated international food insecurity at the time when food prices are historically high due to the pandemic-induced supply limitations and transportation disruptions. The World Bank's food price index increased to its historically highest level of 159.04 index points in March 2022 compared to 122.77 during the corresponding month in 2021 (Figure 5a). This was mainly due to higher prices of most cereals and vegetable oils, owing to supply chains and transportation disruptions, coupled with high prices of wheat and coarse grain resulting from the war in Ukraine. The ongoing war between Russia and Ukraine is detrimental to the global supply of wheat and sunflower oil which imposes additional pressure on food security.

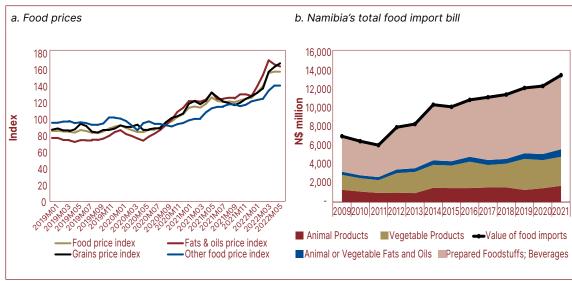


Figure 5 (a-b) Developments in food imports

Source: World Bank and NSA

The rising global food prices have resulted in higher import payments for food in Namibia. Namibia's food import bill stood at N\$3.5 billion during the first quarter of 2022, recording an annual increase of 14.2 percent. *Cereals, animal or vegetable fats and oils* (mainly sunflower), *fish* as well as products of the *milling industry* (malt, barley and wheat) are the main drivers of the increase in the food import bill in Namibia (Figure 5b). Given that Russia and Ukraine are key producers of wheat, vegetable oil and cereal, prices for these products have risen quite substantially following the outbreak of the war. The combined import payments for cereal and products of the milling industry rose year-on-year and quarter-on-quarter by 39.2 percent and 27.2 percent, respectively, to N\$684 million during the first quarter of 2022.

South Africa, Germany and Poland were amongst the leading sources of food imports during the first quarter of 2022. South Africa continued to be the main source of food imports, accounting for 76.7 percent of total food imports, largely comprising of cereals, sugars, vegetable fats and oils, and beverages. Prior to the war in Ukraine, Russia used to be the second major source of food imports, consisting of cereals, mainly wheat. The import of wheat from Russia has been severely impacted and local importers have resorted to alternative sources such as Poland and Latvia, with these countries accounting for a combined share of 3.7 percent of total food imports (Figure 6). Import of food from Germany increased to 3.1 percent of the total during the first quarter of 2022, mainly consisting of products of the milling industry (barley), beverages and dairy products. Other major sources of food imports were the Falkland Islands and Morocco, reflecting the higher fish imports for inward processing.

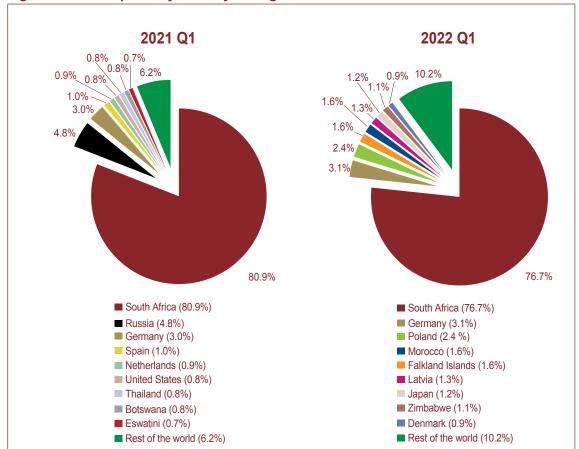


Figure 6. Food imports by country of origin

#### 3.3 Fertilizers

Global fertilizer prices were already elevated prior to the war on the back of supply disruptions and China and Russia's export restrictions coupled with robust demand for this product. Fertilizer prices remain high (Figure 7a) as China suspended fertilizer exports from July 2021 until June 2022, to ensure domestic availability. In addition, Russia also put an export ban on ammonia nitrate from February to May 2022, with the aim of fully meeting the needs of Russian farmers and companies. The ongoing war also contributed to the higher fertilizer prices due to the economic sanctions on the Black Sea region which is a major exporter of fertilizers (World Bank, 2022). As it stands, fertilizer prices are now at their highest since the 2008 global food crisis, with the fertilizer price index rising on annual basis by 84.5 percent to stand at 176.7 index points during the first quarter of 2022. In addition, fertilizer prices are expected to remain high for as long as natural gas and coal prices remain elevated and depend on whether China and Russia's fertilizer supply returns to international markets.

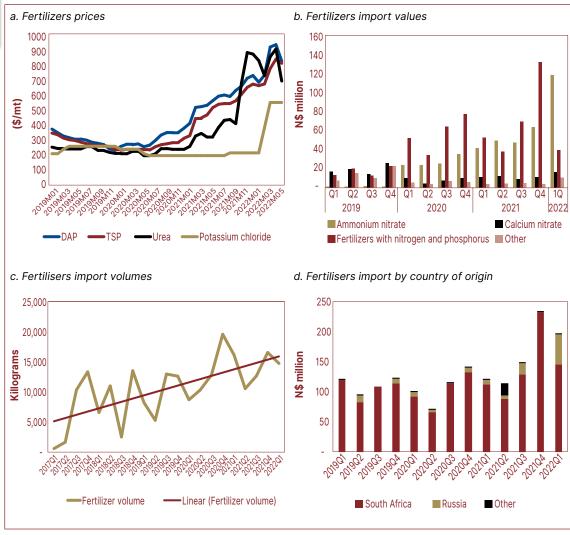


Figure 7. (a-d) Developments in fertilizer imports

Source: World Bank, NamRA and NSA

Similar to global developments, Namibia's import payments for fertilizers rose substantially despite the volumes remaining relatively stable. Namibia is a net importer of three major groups of fertilizers - nitrogen, phosphorus and potassium-based fertilizers, which are used in the mining sector as well as the agricultural sector. Namibia imported fertilizers worth N\$1.3 billion between 2019 and 2021 (Figure 7b). In 2021, fertilizers imports stood at 0.6 percent relative to total imports and rose further by 0.2 percentage points to 0.8 percent during the first quarter of 2022. The value of fertilizer imports rose significantly by 70.0 percent from N\$110 million recorded a year ago to N\$187 million recorded during the first quarter of 2022, reflecting a surge in international fertilizer prices. In contrast, during the first quarter of 2022, the volumes of imported fertilizers declined by 9.0 percent quarter-on-quarter, driven by multiple factors including the lower demand by the agriculture sector as input costs rise. Consequently, on a quarterly basis, the value of fertilizer imports fell by 12.5 percent to N\$187 million. By destination, the bulk of the fertilizers imported into Namibia were sourced from South Africa and Russia (Figure 7d).

# 4. Impact of the three Fs on the merchandise trade balance

The war in Ukraine has impacted Namibia's trade balance indirectly and mainly via two channels: commodity prices and supply-chain disruptions. On aggregate trade level, Russia and Ukraine are not significant trading partners of Namibia, thus, the direct impact on the trade balance arising from



trade with Russia and Ukraine has been minimal. However, looking at the indirect impact due to higher commodity prices, especially for fuel, food and fertilizers contributed to the deterioration in the trade balance as well as higher inflation.

The import of the three fundamental Fs- fuel, food and fertilizers accounted for a third of total imports between 2019 and 2021. On average, the combined share in terms of value of the three Fs accounted for 31.4 percent of total imports over the past three years. This share however, increased to 40.5 percent during the first quarter of 2022. The 9.2 percentage points increase in the share reflects the impact of higher commodity prices and supply-chain disruptions following the sanctions on the Russian economy. The value of merchandise imports rose significantly by 25.3 percent year-on-year to N\$22.4 billion during the first quarter of 2022. The imports of fuel, food and fertilizers contributed to about 60 percent of the rise in the import bill during the first quarter of 2022.

#### 5. Conclusion

Before the war in Ukraine, the global economy was recovering from the COVID-19 pandemic, with supply already stretched to keep up with rising demand. Russia and Ukraine are essential global food producers, accounting for a third of global wheat exports and at least two thirds of exports of sunflower seed oils. In addition, Russia is amongst the largest exporters of crude oil and plays a crucial role in the exports of fertilizers. Thus, the Russia-Ukraine war has a substantial effect on food, fuel and fertilizer importing countries, Namibia included, thus putting additional pressure on the recovery from the aftereffects of the COVID-19 pandemic.

Relative to total trade, Namibia's direct trade with Russia and Ukraine has been very low. Since 2019, imports from the two countries were below one percent of Namibia's total trade, with imports mainly consisting of food (in the form of cereal) and fertilizers (in the form of nitrogen, phosphorus, and potassium). Despite the trade exposure being low, imports of cereals and fertilizers from Russia have a significant share in and impact on Namibia's total cereal and fertilizers imports and consequently Namibia's milling industry. Therefore, the surge in global food prices exacerbated by the war has increased input costs and consequently spill over to consumers through higher food prices and a reduction in purchasing power. Moreover, sanctions on Russian oil have a substantial indirect impact on Namibia's mineral fuel imports through supply disruptions and higher prices. The three Fs accounted for more than a third of total imports during the first quarter of 2022. Imports of fuel, food and fertilizers contributed about 60 percent of the rise in the import bill during the first quarter of 2022, consequently resulting in a deterioration of Namibia's merchandise trade deficit during the first quarter of 2022.

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