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PRESS STATEMENT

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International economic developments

On the **international** front, the global economy continued to display signs of weakness during the first quarter of 2009, although there were also encouraging yet tentative signs of an early recovery. On the positive side, stock markets rallied, commodity prices started to recover, including crude oil, which is a major input factor in industrial production. It is nevertheless still too early to conclude how sustainable this recovery would be. On the negative side, most advanced economies recorded the worst quarterly GDP growth rates in the first quarter of 2009, since the beginning of the global financial crisis, with unemployment rates continuing to soar to new heights. It is against this background that leading international institutions, such as the IMF, World Bank and Organisation for Economic Cooperation and Development (OECD), have successively reduced their economic growth forecasts for the world economy. For instance, in the *April 2009 World Economic Outlook*, the IMF estimated that the real global GDP growth should have contracted by about 1.3 percent during the first quarter of 2009. In response, most central banks around the world carried on with their policies of monetary easing in order to stimulate economic activities.

Domestic economic developments

On the **domestic front**, available economic indicators showed quite mixed results during the first quarter of 2009. In the **real sector**, Namibia's key primary sector exports, most notably, diamonds, uranium, zinc and gold continued to be adversely affected by the depressed global economic conditions. The agricultural sector also continued contracting during the period under review. In addition to slowing global demand, seasonal effects contributed to the decline in agricultural produce. The secondary industry reported sluggish performance, with most indicators registering downward movements. The manufacturing output of refined zinc, beer, soft drinks and beef registered declines, while copper smelting was the only subsector that recorded an output increase during the period under review. Also construction and electricity generation registered negative results.

Developments in the tertiary industry were quite mixed during the period under review. For example, while company registrations and the volume of cargo handled at the Walvis Bay port improved, other indicators, such as new vehicle sales, tourism, rail and road transportation and the volumes of cargo handled at the Lüderitz harbour, slowed down. Further, in line with global trends, the overall annual inflation remained constant at a quarterly average of 11.5 percent during the last quarter of 2008 and the first quarter of 2009. However, on a monthly basis the consumer prices rose at a single digit of 9.6 percent in May 2009, slightly lower than 9.7 percent in May 2008. The balance of risks has changed somewhat as the exogenous factors driving inflation started to moderate. This moderation in inflation was mainly due to lower food inflation and the slowdown in the domestic fuel prices, which is in line with lower international crude oil prices. However, as expected, the price of oil started to rebound and this has led to the rise in fuel prices in the second quarter of 2009.

Concerning **monetary and financial developments**, broad money supply (M2) rose, quarter-on-quarter, at the end of the first quarter because of the rise in net foreign assets of the banking sector. Over the same period, growth in net claims on the domestic sector declined due to the decrease in the claims of the banking sector on Central Government, coupled with a moderation in claims on other sectors. The moderation in credit extended to other sectors resulted from slower growth in credit extended to both regional and local government and public non-financial corporations, while an increase was recorded for resident sectors. Private sector credit extension continued to be relatively restrained during the first quarter of 2009 as it only grew by 1.9 percent compared to 3.1 percent at the end of the fourth quarter of 2008.

In view of the sluggish monetary conditions, the Bank of Namibia adopted a more accommodative monetary policy stance, firstly because of gradually subsiding inflation trends and secondly with the aim of stimulating domestic demand conditions, which was expected to rekindle domestic economic activities. The Bank of Namibia, therefore, decreased its **Repo rate** by another 100 basis points to 9.00 percent during the first quarter of 2009. This was followed by another cut of 100 basis points in April and two further cuts of 50 basis points each in May and June to reach the current level of 7.00 percent.

Fiscal policy remains uncompromised as the total outstanding Central Government debt increased marginally by 1.7 percent to N\$13.4 billion at the end of the fourth quarter of 2008/09 fiscal year. This increase was mainly reflected in the domestic debt component, while that on the external debt declined. The rise in domestic debt was attributed to the Government's borrowing plan that is aimed at facilitating the domestic money and capital market developments. The decline in the foreign debt component was caused by the appreciation of the Namibia Dollar against some major foreign currencies. In relation to GDP, total Central Government debt increased, quarter-on-quarter, by 0.43 percent to 24.5 percent, during the fourth quarter of 2008/09. On the other hand, the total Central Government loan guarantees issued to public and private sectors declined over the same period.

On the **external sector** front, the overall balance of the balance of payments was characterized by a reduced surplus during the first quarter of 2009, mainly on account of the global economic downturn. The improved surplus in the current account was on the back of higher current transfers and reduced outflows in services and investment income, while the merchandise trade deficit further widened. Further, the international investment position recorded an increased net asset position from the level in the preceding quarter.

The Bank of Namibia is confident that its anchor and intermediate target to ensure long-term price stability, namely the currency peg, remains sustainable. In this connection, liquidity conditions in the banking system remained favourable, and there has been no undue outflow of capital. Moreover, the stock of international reserves continued to remain high and recorded a level of N\$14.0 billion at the end of the first quarter of 2009, resulting in the import cover of 19 weeks at the end of the first quarter. This implies that reserves were at levels sufficient to support the currency peg. The increase in the level of reserves was largely attributed to continued high SACU receipts, compensation received for the use of the Rand as legal tender, and Rand banknote repatriation credits.

In **summary**, the Namibian economy continued to be exposed to the weakening global economy. Although the commodity prices have started abating, it is not clear how long the recent recovery will last in order for the benefit to be transmitted to the real sector of the global economy. Therefore, as long as the uncertainty in key fundamentals remains, reversing sluggish economic activities in Namibia will continue to be a challenge going forward.

Paul Hartmann
Deputy Governor