

PRESS STATEMENT
QUARTERLY BULLETIN, SECOND QUARTER 2008
ECONOMIC DEVELOPMENTS IN NAMIBIA FOR THE SECOND QUARTER
(APRIL – JUNE) 2008

Global economic conditions continued to be characterised by slowed growth and rising prices. As a result, global output growth is expected to slow to 4.1 percent in 2008 from 5.0 percent in 2007. This restrained growth was more profound in advanced economies, as compared to emerging economies, and mainly emanated from the impact of the housing market crisis in the USA complemented by the impact of crude oil prices on transportation and food costs. Although economic activities in emerging market economies also slowed, they remained fairly steady at the back of renewed global demand on some of their major exports. This development has led to noticeable growth in prices of some commodities. The deteriorating global economic outlook in both advanced and emerging market economies caused central banks in these economies to keep their respective policy rates unchanged in a bid to stimulate activities.

With respect to **commodity markets**, the price of crude oil remains a key factor in the determination of global prices. The oil market remained under pressure during the second quarter, a trend which was observed in the previous quarter. The average price of crude oil rose from US\$102 per barrel at the end of March to US\$131 per barrel at the end of June. However, towards the end of August, there were indications of ebbing demand pressure as the crude oil price began to stabilize downward. The weakness in demand and steady oil stock inventory brought the price from a peak of US\$148 per barrel in July to US\$92 per barrel in September. Furthermore, the index of food prices showed an upward trend due a combination of increasing demand and lagging supply or production shortfall.

The **Namibian economy** remained resilient during the second quarter of 2008 as most of available economic indicators pointed upwards. The most notable growth indicators were those in the agriculture, mining and service sectors. The agricultural sector delivered an expected rise in livestock marketed but disappointing crop and horticulture yields. Mining has had to cope with tight electricity supply and a spate of industrial action. However, uranium output rose despite these factors. Domestic electricity generation rose substantially in the second quarter although significant net imports from a variety of sources continued to be required to meet domestic demand. Vehicle sales dipped slightly from the first quarter to the second quarter on account of reduced passenger vehicle sales.

On the **inflation** front, annual inflation rose from a quarterly average of 9.7 percent during the first quarter of 2008 to 10.3 percent in the second quarter of 2008. Inflation has been rising since the second quarter of 2005 and has reached double digit inflation in June 2008, the highest level in 5 years of the Namibia Consumer Price Index (NCPI) series. The higher inflation is primarily driven by strong increases in prices of food and non-alcoholic beverages and petroleum. Similarly, the **price of diesel, petrol 95 and petrol 93** rose further in April, May and June of 2008, reaching record levels of N\$10.64 per litre, N\$9.00 per litre and N\$8.98 per litre, respectively in Walvis Bay by the end of the second quarter. These prices have had particularly devastating effects on industries that are intensive users of fuel, including the fishing and transport industries. However, there are signs that global demand has started to slow down, which would hopefully lead to a decline in certain food commodity prices, as well as crude oil prices. In this regard, there has already been a significant decline in international crude oil prices, which should provide relief to inflationary pressures going forward.

Claims on Central Government by other depository corporations (ODCs) increased by 6.7 percent, quarter-on-quarter, in contrast to a decline of 18.9 percent reported at the end of the previous quarter. This was primarily due to the acquisition of the newly issued Government bond, GC18. Growth in **private sector credit**, on the other hand, slowed to 0.9 percent at the end of the second quarter of 2008 from 3.3 percent at the end of the first quarter. This slowed growth surfaced from a moderation in credit extended to businesses, while individuals borrowing picked up slightly.

The Bank of Namibia decided to keep the **Bank rate** unchanged at 10.50 percent at its monetary policy meeting of August 20, 2008. This was the fifth consecutive time that the Bank left the Bank rate unchanged. The Bank of Namibia remains confident about the currency peg as a nominal anchor to ensure long-term price stability.

Moreover, supported by prudent fiscal policy, the international reserves outlook of the country further strengthened from N\$9.3 billion to N\$11.5 billion at the end of July, which is more than sufficient to sustain the currency peg.

In terms of **Government's fiscal position**, total debt of the Central Government rose by 3.8 percent, quarter-on-quarter, to N\$12.4 billion at the end of the first quarter of 2008/09 fiscal year. Mainly responsible for the increase was the new issues in domestic markets of both Government's internal registered stock and treasury bills to fund the Government's budget deficit and ensure domestic capital market development. However, the debt ratio declined to 20.8 percent of GDP. This can be explained by the fact that the Namibian economy as a whole grew faster than the growth in the debt of Central Government.

The surplus on the overall balance of the **balance of payments** (BOP) narrowed to N\$421 million during the second quarter of 2008 from a huge surplus of N\$2.3 billion recorded during the previous quarter. This is due to a narrowing current account surplus despite the smaller deficit on the capital and financial account. The decline in the current account surplus was mainly attributed to increases in net outflows from categories merchandise imports, investment income and compensation of employees. As far as **exchange rate** developments are concerned, the Namibia Dollar depreciated against major currencies during the second quarter of 2008. The depreciation was partly attributed to weaker than expected South Africa GDP growth, especially in the first quarter and elevated inflation.

In conclusion, the Namibian economy remained stable during the second quarter of 2008, despite grey areas in some variables such as persistent high food and fuel prices that pose a threat to the inflation outlook. However, there have been welcome reductions in pump prices in August and September as a result of a decline in international crude oil prices during these months. There have also been decreases in certain food prices, such as dairy products, cereals and sugar, that were partly supported by the implementation of zero-rating of selected basic food items.

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