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PRESS STATEMENT

Bank of Namibia Quarterly Bulletin: Third Quarter 2009

**DOMESTIC AND INTERNATIONAL ECONOMIC AND FINANCIAL
DEVELOPMENTS DURING THE THIRD QUARTER**

(July - Sept 2009)

International Economic Developments

The global economy went through a period of extraordinary instability in 2008 and beginning of 2009. However, since April this year, there has been encouraging signs that the worse of the global economic crisis might be over, mainly on the back of continuous fiscal and monetary stimulation, although the sustainability of the recovery is still uncertain. In this connection, output growth in most of the advanced economies expanded moderately during the third quarter, with the exception of the UK. Similarly, output in the dynamic BRICs economies, such as China and India has been relatively robust, accounting for a large part of improved global economic activity. Moreover, leading economic indicators, including Purchasing Managers' Indices (PMIs) for most of the selected advanced economies have started to move above 50, reflecting improvement in manufacturing sectors' activity. Further, the rally in global stock markets and rising commodity prices continued in the third quarter, indicating improvement in economic outlook. However, unemployment rates continued to be worrying in most of the advanced economies, suggesting that the global economic recovery will be slow and uneven. In this connection, with the exception of Australia, most Central banks in the advanced and emerging economies kept their already low policy rates constant in order to continue stimulating demand conditions in their respective economies.

Domestic economic developments

On the **domestic** front, in line with the developments in the global economy, the Namibian economy continued to show signs of an early but fragile recovery during the third quarter of 2009.

In the **primary industry** the agricultural sector expanded as witnessed in the quarterly performances of key indicators such as the number of cattle marketed, milk and horticulture production, while small stock marketed declined. With regards to the mining sector, output of diamond and zinc concentrate decreased, while that of gold and uranium rose, as demand for these commodities increased. The performance in the **secondary industry** remained mixed, with the output of manufacturing products such as, soft drinks, beer, cement and copper blister rising, while the production of refined zinc decreased. The **tertiary industry** continued to outperform other sectors during the third quarter, as most of its indicators showed improved performances. Activities in wholesale and retail sales, water transport as well as transported cargo on rail and road contributed to the positive performance of the industry.

In line with global trends, overall **inflation** continued to moderate to 7.4 percent during the third quarter from 9.6 percent in the preceding quarter. This moderation in inflation was mainly on account of lower food inflation as a result of increased supply, coupled with a slowdown in the domestic pump prices. However, the price of oil rebounded primarily due to the improved global economic outlook and led to the rise in domestic pump prices on 16 December. It is expected that this will put upward pressure on prices of food and other commodities, as fuel, especially diesel remains a major input factor in most processes across economic sectors.

With regard to the developments in the **monetary and financial sector**, both seasonally adjusted and unadjusted broad money supply (M2) contracted at the end of the third quarter. The contraction was reflected in net foreign assets (NFA) of the banking sector, which emanated from a rise in liability to non-residents. Over the same period, the growth in domestic claims rose as a result of increased banking sector claims on Central Government and other sectors. The rise in credit extended to other sectors was mainly reflected in credit extended to other non-financial corporations and other resident sectors.

Taking the above developments into account, the Bank of Namibia kept the **Repo rate** at 7.0 percent during the third quarter of 2009. This notwithstanding, commercial banks adjusted their average nominal lending rates upwards, while reducing the average deposit rates. As a result, the spread between the Repo rate and the lending rates widened.

It is worth mentioning that the **public finance sector** remained prudent during the quarter under review. In this connection, total outstanding Central Government debt stock contracted slightly. The contraction was reflected in the external debt component, due to the appreciation of the Namibia Dollar against major currencies, while the domestic debt component rose. Further, total loan guarantees issued by Central Government to the public and private sectors also decreased over the same period.

On the **external sector front**, the overall balance of the balance of payments recorded a significant surplus. The surplus on the current account, however, declined when compared to the previous quarter and the corresponding quarter of 2008. The narrowing surplus was a result of the widened trade deficit due to imports that grew faster than exports. Moreover, the deficit recorded on the capital and financial account also widened due to outflows in other *long-term investments*. The international investment position (IIP) continued recording increased net foreign assets. In this connection, the *stock of international reserves* rose at the end of the third quarter, representing 17.5 weeks of import coverage. Similarly, the external debt rose due to increased private sector debt, while Government debt recorded a decline over the same period.

Overall, there was a noticeable improvement in the global economy during the third quarter of 2009. It is still, however, premature to make an assessment about the sustainability of the recovery in the global economy. This is mainly due to the stubbornly high unemployment rates in advanced economies that pose a significant risk to the speedy recovery. Notwithstanding the weakness of the global economy, the overall fundamentals of the Namibian economy remain sound. In this connection, monetary and fiscal policies continue to be prudent and supportive of the country's overall development objectives.

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