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ECONOMIC DEVELOPMENTS IN NAMIBIA FOR THE FIRST QUARTER (JANUARY- MARCH) 2006

Unlike 2005, when growth in the *world economy* slowed down, in 2006 it is expected to continue growing at a rate above 3 percent. Though the economic growth for the US continue to be important for the global economies, that of China, India and a few other large developing economies are gaining momentum.

During the first quarter of 2006, there was a mixed performance in the real economic activities of Namibia. Positive performances were only observed in the mining, electricity and water, and transport sectors, while others such as agriculture, construction, wholesale and retail trade, and hotels and restaurants performed disappointingly.

As for the *overall annual inflation* in Namibia, the upward trend observed since the third quarter of 2005, continued during the first quarter of 2006. The increased inflationary pressure was attributed mainly to the rise in the rates of the categories '*food and non-alcoholic beverages*' and '*housing, water, electricity, gas and other fuel*'.

Broadly defined monetary supply (M2) accelerated both on quarter-on-quarter and year-on-year basis. The turnaround in the net foreign position of the depository corporations from net foreign liabilities to net foreign assets in the previous quarter accounted for much of the rise in M2 on a quarter-on-quarter basis, while on a year-on-year basis, the increase in money supply emanated from the expansion in the domestic credit extension. The *monetary policy* stance in Namibia remained unchanged over this period at 7.00 percent. The monetary policy stance during the period under review has continued to be favourable for and supportive of economic activities as evidenced by expansion in domestic credit extension.

Central Government debt declined during the fourth fiscal quarter of 2005/06 in comparison to the previous fiscal quarter. The decline in the stock of total

outstanding debt of Central Government was reflected in the decrease in the stock levels of both the domestic and foreign debt. This augurs well for and is supportive of the prudent fiscal policy stance pursued by the Government.

The surplus in the *overall balance* of the balance of payments for Namibia widened during the first quarter of 2006 from the level in the fourth quarter of 2005. This improved surplus of Namibia's balance of payments is attributable to the increased current account surplus in the first quarter of 2006, while the capital and financial account balance once again turned into a deficit position from a surplus recorded during the fourth quarter of 2005. The improved current account surplus during the quarter is mainly ascribed to substantial increases in the compensation for the use of Rand currency as legal tender in Namibia and in transfers from the common customs pool of the South African Customs Union (SACU).

With regard to exchange rate developments, the external value of the Namibia Dollar appreciated, quarter-on-quarter, against other major currencies during the first quarter. This appreciation was also observed on the trade weighted exchange rate, as measured by the nominal and real effective exchange rate indices.

Paul Hartmann
Deputy Governor