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**ECONOMIC DEVELOPMENTS IN NAMIBIA FOR THE THIRD QUARTER
(JULY-SEPTEMBER) OF 2008**

Global economic conditions continued to be tainted by the adverse impact of the global financial crisis, which originated in the US subprime mortgage market in August 2007. As a result, the global economy is expected to grow at 3.7 percent in 2008 and slow further to 2.2 percent in 2009 from a growth of 5.0 percent in 2007. The slow growth will be more pronounced in the advanced economies than in emerging economies. Growth in emerging market economies is expected to remain fairly steady, driven by increases in domestic demand in some of these countries. Influenced by the concerns about the deteriorating global economic outlook, central banks in advanced economies reduced their key benchmark rates to mitigate the impact of the financial crisis on their economies. Among these, were the Federal Reserve, the European Central Bank, Bank of England, Bank of Canada, Swiss National Bank and the Bank of Sweden. Each of the above-mentioned central banks lowered its benchmark interest rate by 50 basis points during the third quarter of 2008.

With respect to **commodity markets**, crude oil prices for the third quarter declined by 4.4 percent to US\$118 per barrel from US\$123 per barrel registered in second quarter of 2008. The decline could mainly be explained by the decrease in the demand for crude oil due to the slowdown in global growth. Furthermore, international crude oil prices fell below US\$50 per barrel in December, a continuing trend experienced since end of November. Inflation in most of the advanced economies also slowed in October, driven by the overall decrease in the price of crude oil.

Available economic indicators on the **performance of the domestic economy** revealed mixed results during the third quarter of 2008 as production of some products rose, while that of others declined. The most notable growth in production was in mineral products, such as refined zinc, copper, gold and uranium, while that of diamonds declined, quarter-on-quarter. With regards to agriculture, production in horticulture rose significantly over the same period, while the total number of livestock marketed declined. Further, the rate of electricity consumption increased on a quarterly basis during the third quarter of 2008, driven mainly by rising demand for energy during winter. The number of both new passenger and commercial vehicles sold in the third

quarter of 2008 rose to 2 490 from 2 445 in the preceding quarter. The increased sales in vehicles could mainly be attributed to large orders placed by Government to cater for the needs of the Namibian Police.

In terms of **price developments**, annual inflation rose to a quarterly average of 12.0 percent from 9.8 percent during the previous quarter. The upward trend in the Namibia Consumer Price Index was driven by high food and fuel prices. However, inflationary pressures could subside somewhat in view of international crude oil prices and agricultural commodity prices that have started to abate. It is important to point out that consumer prices have started to stabilize. This is due to the fact that since July up to October, the rate of annual inflation remained constant at 12 percent. Following the decline in fuel prices, downward adjustments in **domestic pump prices** were observed since August 2008. Local fuel prices were reduced 4 times since August 2008, with the recent reduction in December – petrol by a total cumulative amount of N\$2.80 and diesel by N\$2.70.

On the **monetary front**, broad money liabilities (M2) increased by 3.5 percent at the end of the third quarter of 2008 driven by the net foreign assets of the banking system and supported by domestic credit. Claims of depository corporations on the Central Government grew by 10.5 percent at the end of the third quarter of 2008. This development stemmed from an increase in Government Treasury Bills held by commercial banks. Growth in credit extension to other sectors rose to 2.9 percent at the end of the third quarter of 2008 from 1.9 percent at the end of the preceding quarter. This increased growth was reflected in credit extended to the private sector supported by lending to state and local government.

The Bank of Namibia decided to keep the **Bank rate** unchanged at 10.50 percent at its monetary policy meeting of 15 October 2008. This was the sixth consecutive time that the Bank left the Bank rate unchanged. The Bank of Namibia remains confident that its key 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 not been any excessive or undesirable outflow of capital. Moreover, the level of international reserves further strengthened and remains more than sufficient to provide a cushion to sustain the currency peg.

In terms of **Government's fiscal position**, the stock of total Central Government debt outstanding increased to N\$12.7 billion, quarter-on-quarter, at the end of the second fiscal quarter of 2008/09, representing an increase of 2.2 percent. The increase was mainly attributed to a 6.5 percent rise in foreign debt, which, in turn, was caused by a new foreign loan and disbursements on existing loans, as well as exchange rate gains due to the depreciation of Namibia Dollar against the US Dollar, SDR and Chinese Yuan. The debt ratio rose to 17.6 percent, but remained sustainable as it is well below Government debt target of 25 percent of GDP.

The overall **balance of the balance of payments (BOP)** registered a surplus of N\$1.3 billion during the third quarter of 2008. The surplus was characterised by a widening current account surplus, narrowing capital and financial account deficit. The International Investment Position (IIP) recorded an increased net foreign asset position compared to the level in the preceding quarter. A surplus on the current account was realised, despite the increased merchandised trade deficit in the third quarter of 2008. This was a result of improved net inflows from services and investment income, supported by current transfers, especially from SACU.

As far as **exchange rate developments** are concerned, mixed developments in the exchange rate of the Namibia Dollar against major currencies were reported during the third quarter of 2008 as a result of the deepening global financial crisis. The Namibia Dollar depreciated against the US Dollar, quarter-on-quarter, during the third quarter of 2008, while it appreciated against the Euro and the Pound Sterling.

In **summary**, despite the above mixed developments in various economic indicators, as well as the turmoil in the global economy, it can be stated that economic fundamentals of the Namibian economy were favourable and stable during the third quarter of 2008. Nevertheless, going forward it is expected that the imminent slowdown of the world economy will adversely impact on Namibia's growth performance over the medium term.



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