

ECONOMIC DEVELOPMENTS IN NAMIBIA FOR THE FIRST QUARTER OF 2005  
(JANUARY-MARCH)

The global economic activities were moderate during the first quarter of 2005 as observed in the developments in major economies. A slowdown was reflected in the GDP growth of the US, to 3.5 percent quarter-on-quarter (annualised), down from 3.8 percent recorded in the previous quarter. The deceleration in economic activities in the US is essentially attributed to the slowdowns in real personal consumption expenditure; investment in equipment and software and real non-residential fixed investment.

Further, a slight growth was registered in the Euro area. Quarter-on-quarter, GDP in the Euro area grew by 0.5 percent during the first quarter of 2005, compared to 0.2 percent in the previous quarter. GDP also grew by 1.3 percent compared to the corresponding quarter of the previous year. The slowdown, year-on-year, was due mainly to a deceleration in the growth of private consumption and investment. Also, export growth remained subdued, but coupled with significant decline in imports, net trade made a positive contribution.

In Asia, the Japanese economy showed the fastest pace of growth in the first quarter of 2005, growing by 1.3 percent, quarter-on-quarter, the highest since the 1.4 percent recorded in the first quarter of 2004. The contributing factors to the growth in GDP were both private consumption and capital spending, offsetting the decline in net exports.

The South African seasonally adjusted real GDP for the first quarter of 2005 increased by an annualised rate of 3.5 percent (quarter-on quarter). The main contributors to the increase in economic activity for the first quarter of 2005 were the finance, real estate and business services industries, wholesale and retail trade, hotels and restaurants industry, the transport and communication industry and mining and quarrying.

The slowdown in economic activities of the industrial economies was also felt in the Namibian economy. GDP in Namibia grew at a lower rate of 2.5 percent during the first quarter of 2005 compared to the growth of 6.8 percent witnessed during the same period in 2004. The growth observed during the first quarter of 2005 is, however, higher than a rise of 0.8 percent registered during the fourth quarter of 2004. All the sectors, with the exception of the fishing and manufacturing sectors contributed to the positive growth in GDP during the first quarter of 2005.

Inflationary pressure continued to decline since the beginning of the year. Year-on-year, inflation slowed down from 4.3 percent in December 2004, to 2.5 percent in January and further to 1.7 percent in March 2005, reaching a quarterly average rate of 2.3 percent for the first quarter of 2005. This rate is lower than 4.2 percent recorded during both the preceding quarter and the corresponding quarter of 2004. Responsible for the downward movement in the inflation rate are decreases in the price indices of food, housing, transport and education. Latest developments indicate that inflation dropped further down to 0.9 percent in May 2005.

The Namibian monetary policy stance remained the same during the first quarter of 2005. The Bank of Namibia, after taking cognisance of all the domestic economic developments, however, changed the Bank rate during April 2005. This rate declined by 50 basis points from 7.50 at the end of March to 7.00 since the 16<sup>th</sup> of April 2005. On the other hand, the growth in the broadly defined money supply (M2) increased moderately during the same period emanating, mainly from the net foreign assets of the depository corporations (DCs), supported by a rise in DCs' claims on other sectors. The net claims on the Central Government, on the other hand, exerted a contractionary effect on the money supply.

During the final quarter of the fiscal year 2004/05, the central government operation is estimated to have recorded a surplus of N\$200.0 million or 0.6 percent of GDP. For the whole of 2004/05, the Government fiscal operations, however, is estimated to have accumulated a deficit of N\$747.1 million, representing 2.1 percent of GDP, down from a high of 7.5 percent of GDP during 2003/04. This marks the fourth lowest deficit

witnessed since independence although it is slightly above the budget deficit of 1.6 percent of GDP that was targeted for 2004/05. The realized low budget deficit during 2004/05 was attributed primarily to tightened expenditure and improved revenue collection.

In addition, total central government debt during the final quarter of 2004/05 contracted slightly from the previous quarter. This was due to a moderate decline in domestic debt which resulted from the net repayment of N\$130.1 million for the Government securities. On the other hand, external debt increased slightly during the quarter under review, largely due to the expansion of the bilateral and multilateral loans.

The overall balance of the balance of payments for Namibia during the first quarter of 2005 was characterized by increases in the current account surplus and capital and financial account deficit. The increase in the current account surplus, however, was less than the rise in the capital and financial account deficit, resulting in a deficit of N\$65 million in the overall balance during the first quarter of 2005, compared to a surplus of N\$169 million recorded during the preceding quarter. The overall deficit during the first quarter was, however, lower when compared to that of N\$286 million recorded during the corresponding period of the previous year. The main contributing factors to the deficit during the first quarter of 2005 were the net outflows in other short-term investments, other long-term investments and portfolio investments.

In summary, the developments of the Namibian economy during the first quarter of 2005 were favourable, although marked by a slower GDP growth. Further, the country is experiencing the lowest inflation since independence. The prevailing monetary policy stance has started to affect private sector credit as is reflected in the increase in the average annual growth rate of private sector credit extension during first quarter of 2005 as compared to the previous year. Also, the fiscal position for the Central Government fared favourably during the final quarter of 2004/05, while preliminary data points towards a deficit in the balance of payments for Namibia during the first quarter of 2005.

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