

PRESS STATEMENT

QUARTERLY BULLETIN, FIRST QUARTER 2008

ECONOMIC DEVELOPMENTS IN NAMIBIA FOR THE FIRST QUARTER (JANUARY – MARCH) 2008

Global economic conditions continued to be tainted by the fall-out of the international liquidity crunch, which started in the US subprime mortgage market in 2007 and spread across major international financial markets. As a result, global output growth is expected to slow to 3.7 percent in 2008 from 4.9 percent in 2007. Although emerging markets and developing economies have so far been less affected by the financial market turbulence, there are signs that economic activities in these countries have started to slow down. Economic growth in Sub-Saharan Africa, on the other hand, is expected to average about 6.5 percent in 2008 mainly due to robust expansion in oil exporting economies.

With respect to **commodity markets**, there has been a further escalation in crude oil prices and a surge in food inflation around the world. This, in turn, has led to a deterioration in the global inflation outlook. Since the beginning of the year, international crude oil prices have increased to record high levels in excess of US\$139 per barrel in the month of June. In part, due to the effect of the sharp rise in international oil prices, there has been a concomitant rise in the price of agricultural commodities, such as maize, that are increasingly being used in the processing of bio-fuel.

Available economic indicators on the performance of the domestic economy points to a slowdown, quarter-on-quarter and year-on-year in some economic activities during the first quarter of 2008. The most notable slowdowns were in the number of motor vehicles sold and mining output. Motor vehicle sales partly declined as a response to tight interest rate environment. The slowdown in mining output was more prominent in diamonds, gold, zinc concentrate and blister copper. Diamond production decreased by 3.0 percent, quarter-on-quarter, and 27.0 percent, year-on-year, in the first quarter of 2008 due to operational problems. Despite the slowdowns in the above-mentioned

indicators, there were improvements in refined zinc output and in the total number of livestock marketed during the same period.

On the **inflation** front, annual inflation rose from a quarterly average of 6.9 percent during the fourth quarter of 2007 to 8.0 percent in the first quarter of 2008. It increased further to 9.7 percent during May 2008, the highest rate recorded since April 2003. The main drivers of the accelerating inflation were food and transport inflation, although inflation of other categories such as furniture, household equipment and routine maintenance and miscellaneous goods and services also recorded increases over the same period.

Underpinned by the sharp rise in crude oil prices, Namibian **fuel pump prices** observed rapid increases in 2008, a trend observed since April 2007. Since then, fuel pump prices have been increased ten times up until the end of June 2008 of which five rises were effected since the beginning of 2008. Coastal pump prices that exclude transport costs were raised to N\$8.98 for petrol 93 octane, while petrol 95 octane and diesel were up to N\$9.00 and N\$10.64 per litre, respectively as at June 9, 2008.

Claims on Central Government by other depository corporations (ODCs) declined significantly by 18.9 percent quarter-on-quarter during the first three months of 2008, a turnaround from increases of 0.8 percent and 12.0 percent registered at the end of the preceding quarter and corresponding quarter of 2007, respectively. This persistent decline in Government borrowing was a result of Namibia's favourable fiscal position. Growth in private sector credit, on the other hand, remained constant at 3.3 percent over the same period. This was due to individual credit extension that declined, while credit to businesses rose slightly by 5.8 percent during the first quarter of 2008 from 4.6 percent recorded at the end of the preceding quarter.

Notwithstanding the deteriorating outlook on inflation, the Bank of Namibia decided to keep the Bank rate unchanged at 10.50 percent at its monetary policy meeting of June 18, 2008. This was the fourth consecutive time that the Bank left the Bank rate unchanged. The last time the Bank of Namibia raised the Bank rate was in October 2007, when the rate was increased by 50 basis points from 10.00 percent. The Bank of

Namibia remains committed to the currency peg as a nominal anchor for price expectations and would like to give the assurance that there are no eminent threats to the sustenance of the peg. In fact, supported by prudent fiscal policy and robust export performance, the reserves outlook of the country remains favourable and current reserves stand at N\$8.9 billion, seven times more than what is required to support the peg.

In terms of **Government's fiscal position**, total debt of the Central Government increased marginally to N\$11.9 billion at the end of the fourth quarter of the 2007/08 fiscal year. Mainly responsible for the increase was the depreciation of the Namibia Dollar against major international currencies, which lead to an increase in outstanding foreign debt stock while the domestic debt stock remained unchanged. The increase in total debt resulted in a debt position of 22.1 percent of GDP. It is worth mentioning that despite the marginal increase in the fourth quarter of 2007/08, the total debt stock as a ratio to GDP remained well below Government's debt target of 25 percent of GDP.

The overall balance of the **balance of payments (BOP)** registered a surplus of N\$2.3 billion during the first quarter of 2008. The surplus is mainly attributable to strong SACU revenue inflows and a narrowing capital and financial account deficit. The quarter under review also saw a sharp increase in foreign direct investment inflows. These factors combined have considerably boosted the expansion of Namibia's international reserves to a new record level.

As far as **exchange rate** developments are concerned, the Namibia Dollar depreciated against major currencies due to increased risk aversion in global financial markets during the first quarter of 2008. This was in contrast to the general trend of currency appreciation observed for the most part of 2007. The depreciation was partly attributed to the worldwide fears of an economic recession, especially in the USA as well as slowing global growth.

In summary, despite the above mixed developments in various economic indicators, it was observed that economic fundamentals of the Namibian economy were favourable

and stable during the first quarter of 2008. However, high and volatile fuel and food prices continue posing a threat to the inflation outlook.