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## **PRESS RELEASE**

### **QUARTERLY BULLETIN – THIRD QUARTER 2005 AND SYMPOSIUM BOOK LAUNCH**

#### **ECONOMIC DEVELOPMENTS IN NAMIBIA FOR THE THIRD QUARTER (July-September) OF 2005**

Economic activities of the advanced economies like the US and the Eurozone accelerated during the third quarter of 2005, compared to the previous quarter, as witnessed by an expansion in the growth of real world output. A deceleration was, however, observed in the Japanese economy, growing at a slower pace than that observed in the second quarter of 2005. Similar to Japan, the South African economic growth also slowed, mainly on account of the same trend observed in the manufacturing sector during the third quarter.

The Namibian economy performed poorly during the third quarter of 2005. The poor performance was driven mainly by lower output in the mining, fishing, manufacturing and hotels and restaurants sectors. The wholesale and retail sector also contributed to the poor performance given its observed slowdown in growth.

Although inflation in Namibia has been generally low in 2005, a buildup in inflationary pressure was observed during the third quarter, with inflation amounting to 2.3 percent compared to 1.3 percent in the second quarter. This is, however, still lower than the 4.0 percent recorded during the corresponding quarter last year. The upward trend during the third quarter relative to the second quarter was mainly on account of the increased food and non – alcoholic beverages inflation, supported by the same trend in most of the other categories. The Bank rate, however, remained unchanged at 7.00 percent during the third quarter of 2005.

The Bank rate in Namibia remained unchanged at 7.0 percent during the third quarter of 2005. The growth in broad measure of money supply, M2, however, decreased during the third quarter. On a quarterly basis, broad money supply decreased by 0.5 percent at the end of the third quarter in contrast to an increase of 4.3 percent at the end of the second quarter. The main drivers of the decrease in the growth of broad money supply were declines in the net foreign assets of the depository corporations and net claims on the Central Government. On the other hand, claims on the other sectors exerted an expansionary effect on money supply during the third quarter of 2005.

The balance of payments for Namibia during the third quarter of 2005 was characterized by a decrease in both the current account surplus and the capital and financial account deficit. The current account surplus decreased more than the fall in the capital and financial account deficit. As a result, the overall balance of the balance of payments recorded a bigger deficit during the third quarter of 2005 when compared to the second quarter.

On the front of Government Financial Statistics for Namibia, the Bank of Namibia was unable to publish this information due to technical difficulties experienced during the third quarter of 2005.

This Quarterly Bulletin also features a box article on the impact of administered prices in Namibia on the overall inflation. The Bank of Namibia decided to look at this issue given its mandate to maintain low inflation and or price stability.

## **PUBLICATION LAUNCHING: BANK OF NAMIBIA ANNUAL SYMPOSIUM FOR 2005**

The Bank of Namibia is officially launching its seventh Annual symposium publication with the theme: The Benefits of Regional Integration for Smaller Economies: Lessons from other Economies. The publication consists of series of papers with a particular reference to the conference theme presented at the Bank's annual symposium held on the 1st of September 2005 at the Windhoek Country Club Resort and Casino.

### **1. Overview of Namibia's Participation in Regional Economic Integration**

This paper provides a brief overview of the evolution of regional integration arrangements in Southern Africa, with a specific focus on Namibia's

participation. These are the Common Monetary Area (CMA), the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). The paper attempts to discuss the extent to which Namibia has benefited from these integration efforts. There are significant key challenges which should attract the attention of policymakers, if these schemes are to live up to their intended usefulness. In particular, the paper discusses how Namibia can maximize the gains from participating in these arrangements. In the final analysis, it is argued that deeper integration of monetary and trade ties with South Africa (in the context of the CMA and SACU arrangements) are likely to be more beneficial for Namibia. These arrangements also present themselves as springboards to wider regional integration in Southern Africa.

## **2. Evaluating the Impact of “Asymmetric” Regional Integration: the Recent European Experience**

This article reviews the ongoing process of regional integration between the “old” and “new” members of the European Union. The liberalization of trade and financial markets appear to have been important factors underpinning the ongoing catching up process. This is shown by (i) reviewing the impact of enlargement as suggested by various different modeling approaches and by (ii) examining a number of remarkable stylized facts. We come to the conclusion that, subject to some important qualifications, the success story of the new Member States sheds a positive light over the merits of regional integration even among countries of different size.

## **3. Challenges and Opportunities of Regional Integration for Developing Economies: Namibia’s Perspective**

A key aspect of the development strategy, shared by many policy makers and economists today, is the recognition of the dynamic potential of regional integration whereby developing countries can break out of their narrow national markets and form regional groupings as an instrument of economic decolonization. They tend to attribute the causes of failure of different development policies in the developing world to the series of independent efforts carried out in isolated compartments. In their view, developing countries have inadequate resources or the technical capacity to compete with the relatively more developed ones in the same underdeveloped regions, much less with developed areas. Consequently, it is necessary to establish a gradual process of economic integration.

#### **4. Summary**

All the papers presented were in agreement that, regional integration is important for Namibia's economic growth and development. The integration process is of benefit to the Namibian economy in terms of the reduction of the transaction costs, elimination of exchange rate fluctuations which promotes economic stability, policy credibility and investor's confidence as well as the maintenance of price stability, access to a relatively large market, and the envisaged harmonization of economic policies such as competition and industrial policies.

Despite the potentially large benefits to be derived from the process of regional integration, it was noted that African countries have put in a lot of efforts with little success relative to the European and East Asia countries.

The following policy issues that serve as challenges that emanated from the symposium in the context of ensuring regional integration for smaller economies concern the supply side constraints, the adoption of the market integration approach, lack of political will/commitment, maintenance of a stable macroeconomic environment, and inadequate institutional, managerial/research capacity,

The way forward for Namibia as part of smaller economies to benefit greatly from regional integration is to address the infrastructure problems, thus stimulating trade and regional integration; prioritization of Namibia's participation in regional integration arrangements, transformation of the CMA arrangement into a fully-fledged monetary union, implementation of a best practiced privatization strategy, and cultivate a sense of ownership of trade negotiation and regional economic integration agenda as well as fostering institutional and trade research capacity and establishing and networking of a national commission for cooperation and integration which should work hand in hand with the recently established National Trade Forum.

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