Date: 30 June 2011

Ref: 9/6/2

DOMESTIC AND INTERNATIONAL ECONOMIC AND FINANCIAL DEVELOPMENTS DURING THE FIRST QUARTER

(JANUARY - MARCH 2011)

I. Introduction

During the first quarter of 2011, available data indicate that the global economic performance slowed due to a number of shocks, when compared to the last quarter of 2010. These shocks include the political instability in the Middle East and North Africa (MENA), the effects of earthquake in Japan and the adverse weather conditions, particularly in the US. In line with the slow global economic growth, the Namibian economy performed weak during the same period.

II. International economic and financial developments

On the international front, the global economic growth remains sluggish, mainly on the back of adverse economic shocks. With regards to the advanced economies, the slowdown in real GDP growth was visible in the US, on account of a decline in government spending, as well as reduced private consumption. Meanwhile, the Japanese economy contracted by 1.0 per cent owing to reduced manufacturing output and weak consumer spending. Moreover, the earthquake and tsunami during the first quarter of 2011 in Japan, had negatively affected economic activities, especially within the Japanese manufacturing sector. Economic growth in the Euro area and the UK, however, improved from 2.0 per cent and 1.5 per cent in the previous quarter to 2.5 per cent and 1.8 per cent, respectively, in the quarter under review. In the Euro Area, the main sources of growth were, amongst others, significant gains in exports by Germany and France. Meanwhile, growth in the UK was underpinned by positive performance in the business services, transport and storage as well as communication sectors.

Unlike the advanced economies, economic activities in all key emerging market economies slowed during the quarter under review, especially as a response to restrictive monetary policy pursued by these countries. In this respect, China recorded a GDP growth rate of 9.7 per cent, slightly down from 9.8 per cent in the last quarter of 2010. Similarly, slower growth rates were recorded in Russia (4.1 per cent), India (7.8 per cent), Brazil (4.2 per cent) and South Africa (3.6 per cent) over the same period. Although, South Africa maintained an expansionary monetary policy stance, weaknesses in the mining sector contributed to the marginal slowdown in growth.

Although the recovery seems to have solidified among some economies, the growth remains insufficient to make a major dent in the high and persistent unemployment rates, especially in advanced economies. Furthermore, risk factors are still evident and their combined effects

71 Robert Mugabe Ave, P.O. Box 2882, Windhoek, Namibia, Tel: + 264-61-283 5114, Fax: +264-61-283 5254, www.bon.com.na

could pose challenges for global growth, going forward. These include, amongst others, high crude oil prices, the sovereign debt crisis in the Europe's periphery, as well as the effect of the earthquake and tsunami in Japan.

III. Domestic economic and financial developments

Reflecting developments in the international economy, the pace of economic activities in Namibia moderated during the first quarter of 2011. The performance within the primary industry was lacklustre as reflected in slowed mining production, with the exception of diamonds and a decline in activities in the agricultural sector. The above average rainfall in most parts of the country during the review period was the major contributing factor to this development. The secondary industry also weakened due to sluggish growth in the construction and manufacturing sectors. Similarly, the performance of the wholesale and retail trade, transport and tourism sectors of the tertiary industry was disappointing.

Consumer inflation increased from 3.2 per cent during the preceding quarter to 3.5 per cent during the review period, despite relatively lower rates in the two major categories of the NCPI basket, namely, food and transport. Higher rates in the categories, such as housing, water, electricity, gas and other fuels; health and recreation and culture were primarily responsible for the increase in the overall inflation rate. The upward adjustments of domestic fuel prices and a weakening Namibia Dollar continued to make the USD denominated oil import bill more expensive, but transport inflation remained lower than the rate recorded in the previous quarter.

A glimpse at the domestic monetary aggregates shows that broad money supply (M2) moderated during the quarter, as reflected in net foreign assets and credit extended to the private sector. The slowdown in credit extension was mainly a result of repayments of short-term overdraft facilities by the corporate sector, which were utilized during the festive season. With regard to the monetary policy stance, the Bank kept the Repo rate unchanged at 6.0 per cent at the monetary policy meeting held during the first quarter of 2011.

Fiscal developments, as measured by total Central Government debt and guarantees, remained prudent and well within the target bands of 25.0 per cent and 10.0 per cent, respectively at the end of the fourth fiscal quarter of 2010/11. The outstanding Central Government debt stock stood at N$13.8 billion, representing an increase of 6.6 per cent when compared to the stock recorded at the end of the previous quarter. Over the same period, the total Central Government loan guarantees issued to both the public and private sectors increased by 1.6 per cent to N$2.5 billion.

During the first quarter of 2011, the deficit on the overall balance of Namibia's balance of payments narrowed by 17.8 per cent. This was a reflection of an improvement on the current account, coupled with reduced capital outflows in portfolio investment on the capital and financial account. On average, mineral exports decreased during the review period contrary to the recovering global demand in the commodity market. The weaker performance of the mining sector is mainly ascribed to operational challenges caused by heavy rainfall that disrupted mining operations. Namibia's International Investment Position maintained a net surplus position at the end of the first quarter of 2011, with resident's stock of foreign assets exceeding their foreign liabilities. The major contributor to the surplus position remained portfolio investment abroad, while the category direct investment in Namibia continued to be the country's most significant liability.

71 Robert Mugabe Ave, P.O. Box 2882, Windhoek, Namibia, Tel: + 264-61-283 5114, Fax: +264-61-283 5254, www.bon.com.na

IV. Conclusion

Overall, the speed of the global economic recovery remained sluggish during the first quarter of 2011. Growth in emerging economies, which is the driver of global economic recovery, moderated somewhat during the quarter, owing to macroeconomic policies directed at curbing inflationary pressures. The sovereign debt crisis in the Euro area, high food and international crude oil prices and persistently high levels of unemployment in advanced economies remain the key sources of uncertainties with regard to growth sustainability, going forward. Noting the reliance of Namibia on exports to the international markets, these downside risks could adversely impact on the country's growth prospects. Furthermore, while inflationary pressures have increased in the quarter under review, it is expected to be contained on account of declining international commodity prices.

It is now my pleasure to officially launch the Bank of Namibia's quarterly bulletin for the period January to March 2011.

P. Hartmann

Paul Hartmann
DEPUTY GOVERNOR

71 Robert Mugabe Ave, P.O. Box 2882, Windhoek, Namibia, Tel: + 264-61-283 5114, Fax: +264-61-283 5254, www.bon.com.na