Bank of Namibia

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DOMESTIC AND INTERNATIONAL ECONOMIC AND FINANCIAL DEVELOPMENTS DURING THE FIRST QUARTER AND THE MONETARY POLICY REVIEW
(January – March 2010)

International Economic Developments

On the **international** front, the global economy experienced a period of unprecedented policy interventions during the crisis in 2008 and 2009. In this regard, there are signs of recovery as the global economy started to stabilize, mainly led by robust growth of the Asian economies. This recovery, nevertheless, remains fragile and uneven across the different regions and economic blocs. In this connection, most of the advanced economies continued to register positive real GDP growth during the first quarter of 2010; reaping the benefits of government interventions and accommodative monetary policy stances. While Japan and USA lead the recovery in the advanced economies, China and India dominated the growth in emerging market economies. However, the UK was an exception, as it experienced recessionary pressures with weaker consumption expenditure in the motor vehicles, retail and wholesale sectors. Further, Purchasing Managers' Indices and Composite Leading Indicators continued to point towards an improved outlook going forward. Demand from Asian economies remained strong and contributed towards a rebound and consequently improved industrial production, but at the same time this has put pressure on commodity prices.

The issue of the sovereign debt crisis in the Euro Zone, however, raised new fears that the gains made after the global economic crisis might be reversed or that a second global economic crisis might occur. In particular, growth in the Euro Zone could be affected by the fiscal austerity measures being implemented and the possibility of default by the Greek Government eventually causes investors to rather take a more cautious approach towards risky assets. This, in turn, may adversely affect overall global growth, going forward.
While most Central Banks maintained an accommodative policy stance during this period, some have started raising interest rates. This reflects the different rates of recovery in economic growth and developments globally, as well as varying degrees of concern on the inflation outlook. High unemployment nevertheless remains a risk to the global outlook as well as the budget deficits and sovereign debt problems in the Euro Zone. It is, therefore, imperative that major policy interventions be implemented to limit contagion effects.

Domestic economic developments

On the **domestic** front, the **Namibian economy**, in line with the global economic recovery, continued to show signs of improvement during the first quarter of 2010, although still at a slower pace. In this regard, the domestic economy is expected to expand by about 4.2 percent in 2010, from an estimated contraction of 0.8 percent in 2009 as indicated in the recently released National Accounts for Namibia 2009.

In the **primary industry**, the mining sector performed relatively well during the first quarter of 2010 with production of diamonds, uranium, gold bullion and zinc concentrate improving when compared with the preceding quarter. On the other hand, most indicators in the agricultural sector declined with the exception of small stock marketing, which rose during the quarter under review. The performance in the **secondary** industry was satisfactory, with the construction sector performing well during the first quarter. However, manufacturing output fell, with the exception of the production of refined zinc. Furthermore, developments in the **tertiary industry** showed predominantly disappointing results, with decreases recorded in new vehicles sales, wholesale and retail sales and tourism, as well as land transportation. However, water transport showed encouraging performance during the review period.

As reflected in the global economy, **inflationary pressures** continued to ease, with Namibia's annual inflation rate averaging 6.1 percent during the first quarter of 2010, lower than the 6.9 percent in the previous quarter. Declines in inflation of major categories, such as *food* and *housing*, were primarily responsible for the slowdown in the overall inflation despite relatively high *transport* inflation. Moreover, the categories *miscellaneous goods and services*, as well as *furnishings*, also recorded significant reductions in inflation rates.

With regard to the developments in the **monetary and financial sector**, both seasonally adjusted and unadjusted broad money supply (M2) expanded at the end of the first quarter of 2010. This expansion was reflected in the quarterly growth of domestic claims, albeit lower when compared to the previous quarter. In this connection, growth in credit extended to *other resident sectors* and *other financial corporations* rose, while growth in credit extended to *state and local government*, *public non-financial corporations* and *other non-financial corporations* contracted. Over the same period, the Bank of Namibia maintained its more accommodative monetary policy stance and kept the Repo rate constant at 7.0 percent. In this regard, the commercial banks kept their nominal average lending rates constant, but increased the nominal average deposit rate, which caused the narrowing of the spread between the lending and the deposit rate.

Fiscal developments remained fairly sound with Central Government reducing both debt and loan guarantees at the end of the fourth quarter of the 2009/10 fiscal year. The lower debt stock was reflected in both domestic and foreign debt stock, due to relatively low borrowing and a favourable exchange rate environment. The redemption of one Government bond, i.e. the GC10, in January 2010 drove the annual decline in domestic debt.

On the **external sector front**, the overall deficit on the balance of payments widened in the first quarter of 2010 compared to the last quarter of 2009, due to developments on the current as well as the capital and financial account. Over the same period, the surplus on the current account declined slightly, while the deficit on the capital and financial account showed a substantial reduction. The reduced surplus on the current account came about mainly due to marginally lower net current transfer receipts and higher net outflows in services, including travel. Although, both import payments as well as export receipts declined, the trade deficit narrowed. On the other hand, the improvement in the capital and financial account was primarily on account of short term transactions of commercial banks and portfolio investment outflows that slowed significantly during this period. Furthermore, the stock of international reserves declined to 20.9 weeks of import cover, but remained more than sufficient to support the currency peg. The international investment position (IIP) at the end of March 2010 recorded excess foreign assets over foreign liabilities, although the net foreign assets were lower when compared to the excess recorded in the preceding quarter.

Overall, despite some uncertainties, the global economy is continuing to recover. However, the speed of the recovery is still at different paces across the regions with the Asian economies driving global growth. The high rate of unemployment remains a risk to the global outlook, coupled with the sovereign debt crisis in the Euro Zone. Notwithstanding the fragility of the global economy, the Namibian economy gained momentum with most of its industries indicating improved performance during the first quarter of 2010. Moreover, inflationary pressures in the country remained subdued and overall fundamentals of the Namibian economy remains sound. In this connection, monetary and fiscal policies continue to be prudent and supportive of the expansion of the country's economy. Going forward, since Namibia is an export-orientated economy, the contagion effect of the sovereign debt crisis in Greece on other economies in the Euro Area could adversely affect the country's exports and therefore future growth prospects.

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