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FOR IMMEDIATE RELEASE

BANK OF NAMIBIA RELEASES THE JUNE 2023 QUARTERLY BULLETIN

DOMESTIC ECONOMIC ACTIVITY EXPANDED AT A STURDY PACE DURING THE FIRST QUARTER OF 2023.

International economic and financial developments

- 1. The global economy showed a slight recovery during the first quarter of 2023, led by growth in the Chinese, Japanese and US economies, despite challenges emanating from the global banking system.** The recovery was mainly attributed to the improved performance in China, the USA, Japan, Brazil and India. In the US, strong consumer spending supported by an improvement in real income were the main drivers of growth; however, this was counterbalanced by weak investment and inventory data. Moreover, the rebound in the Chinese economy was supported by the reopening of the economy after the end of the zero-Covid19 policy. However, despite the favourable economic recovery, leading indicators are pointing to a weaker recovery in manufacturing activity, while the industrial sector remains relatively weak in many of the monitored economies. Meanwhile, the collapse of the Silicon Valley Bank in the US and the acquisition of Credit Suisse by UBS Bank caused a huge selloff in the banking sector during the quarter under review. This was in addition to the effects of the conflict in Ukraine and the resultant high food and energy inflation.
- 2. Most central banks in the monitored economies continued to tighten monetary policy rates during the first quarter of 2023, to fight high inflation.** To ease the elevated inflation, most of the central banks in the monitored advanced economies and the emerging markets and developing economies increased their policy rates. In the advanced economies, the US Federal Reserve, European Central Bank and Bank of England increased their policy rates to address rising inflation and wage growth. On the contrary, the Bank of Japan left its policy rate unchanged over the same period.

In the emerging market and developing economies, the central banks of India and South Africa increased their policy rates, while the central banks of Brazil, Russia and China kept their rates unchanged, during the review period.

Domestic economic developments

- 3. During the first quarter of 2023, activity in the domestic economy expanded at a sturdy pace.** Year-on-year real GDP growth came to a sturdy 5.0 percent in the first quarter of 2023. In the primary industry buoyant growth was recorded in the mining and quarrying sector during the first quarter of 2023 owing to higher production of diamonds, uranium, gold and zinc concentrate, whereas the pace of growth slowed in the agriculture, forestry and fishing sector. Furthermore, growth slowed in the secondary industry on the back of a contraction in the manufacturing sector, offsetting the strong growth in the electricity and water sector as well as a slight recovery in the construction sector. In the tertiary industry contractions were recorded in the financial services and the public administration and defense sectors, but strong growth was registered in the wholesale and retail as well as the tourism and transport sectors.
- 4. Namibia's inflation rate rose slightly on a quarterly basis during the first quarter of 2023 on the back of higher food and housing inflation.** Inflation rose to 7.1 percent during the first quarter of 2023, compared to 7.0 percent in the previous quarter. The rise in inflation was predominantly driven by an increase in the inflation for food, which rose to 14.2 percent mainly on account of the Russia-Ukraine war, the weaker exchange rate, and housing which ticked higher to 2.9 percent due to the annual upward adjustment in rental prices. On a yearly basis, overall inflation rose by 2.6 percentage points from 4.5 percent during the first quarter of 2022, driven by a rise in the inflation for transport, food and housing. In April and May 2023 headline inflation however slowed to rates well below 7 percent.
- 5. Growth in broad money supply (M2) ticked slightly higher during the first quarter of 2023, supported by a significant rise in net foreign assets (NFA), with the private sector credit extension (PSCE) also rising moderately over the same period.** The slightly higher growth in M2 during the first quarter of 2023 was driven by an increase in the growth rate of the NFA of the depository corporations, due in part to the disbursement of an Africa Development Bank (AfDB) loan. Furthermore, growth in credit extended to the private sector edged higher relative to the same period of 2022, underpinned by a rise in credit extended to the household sector.

Similarly, money market interest rates rose in the quarter under review as policy rates increased, alongside improved liquidity levels influenced by increased diamond sale proceeds as well as government transfers.

- 6. On the fiscal front, the Central Government's debt stock rose through the fiscal year to the end of March 2023, whereas Government loan guarantees declined.** The Government debt stock stood at 66.9 percent of GDP at the end of March 2023, similar to the level registered in the corresponding period in 2022. The increase was driven by a rise in the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS), coupled with a rise in external debt due to the disbursement of the AfDB loan in December 2022 as well as the disbursement of a KFW loan in March 2023. Central Government's total loan guarantees declined on a yearly basis to 4.4 percent of GDP, from 5.5 percent of GDP a year earlier. The decline was due to repayments of foreign loans guaranteed by Government in the transport sector as well as the development finance institutions.

- 7. On the external sector front, a higher rate of growth in exports relative to imports narrowed the negative trade balance on an annual basis, while the stock of international reserves increased over the same period.** The trade deficit narrowed during the first quarter of 2023 compared to the same period of 2022, driven by a rise in proceeds across most export commodities, particularly diamonds, gold and processed fish, ascribed to an increase in the export volumes. Similarly, the current account deficit narrowed on an annual basis, and continued to be financed by capital inflows in various forms. The stock of international reserves stood at N\$48.3 billion (4.5 months of imports) at the end of the first quarter of 2023, rising compared to a year earlier largely due to diamond sales proceeds, an AfDB loan of N\$2.6 billion, inflows attributed to foreign asset swap arrangements and exchange rate revaluation effects.

The media and the public at large are urged to read the full Quarterly Bulletin, which can be accessed at: <https://www.bon.com.na/Publications/Quarterly-Bulletins/Quarterly-Bulletins-Publication.aspx>

Issued by:



Mr. Kazembire Zemburuka

Director: Strategic Communications and International Relations, Bank of Namibia

Tel: (061) 283 5114 or email: info@bon.com.na