

Date: 30 June 2020
Attention: News Editor
Ref: 8/1/2/2

FOR IMMEDIATE RELEASE

BANK OF NAMIBIA RELEASES THE QUARTERLY BULLETIN – JUNE 2020

DOMESTIC ECONOMIC ACTIVITY SLOWED DURING THE FIRST QUARTER OF 2020

International economic and financial developments

- 1. Available data points to slower global economic growth during the first quarter of 2020.** Growth in both advanced economies (AEs) and emerging market and developing economies (EMDEs) receded during the first quarter of 2020, relative to the fourth quarter of 2019, with most large economies registering a contraction in real GDP. This is primarily because of measures taken to contain the spread of the COVID 19 pandemic which also significantly affected economic activity. The outbreak of the COVID 19 pandemic created panic and uncertainties across the globe requiring various policy responses. The demand for commodities and risky assets such as equities also declined, while that for US treasuries increased, causing a sharp decline in yields. Some EMDE currencies depreciated quite significantly. Investor sentiment was negatively affected and turned into a defensive mode as the extent and severity of the COVID-19 pandemic and its impact on economic growth remained unknown.
- 2. The global economy is projected to contract significantly in 2020 and recover only in 2021.** In its just-released June 2020 *World Economic Outlook (WEO) Update*, the International Monetary Fund (IMF) projects the global economy to contract by 4.9 percent in 2020, its worst recession since the Great Depression, and more severe than what was seen during the global financial crisis in 2008/2009. Downside risks that are weighing heavily on global growth include uncertainty regarding the duration and direction of the pandemic and related travel restrictions as well as lockdowns. Furthermore, there is risk that countries could experience a re-emergence of infections that will prolong the lockdown measures and travel restrictions, thereby slowing down the re-opening of economies. The volatility of international commodity prices may also derail recovery in many parts of the world.

3. **Inflation was muted but increased slightly amongst the monitored AEs and EMDEs during the first quarter of 2020 compared to the previous quarter, except in Russia where it declined.** Average inflation remained subdued but increased slightly in the monitored countries except in Russia. To contain the anticipated negative impact of COVID-19 on economic activity, most central banks around the globe reduced their benchmark interest rates or adopted other non-conventional stimulatory monetary policy measures.

Domestic economic and financial developments

4. **Activity in the domestic economy slowed during the first quarter of 2020, driven by weak performances as reflected in some key sectors.** The decline was observed across a number of key sectors, such as mining, agriculture, tourism, transport, manufacturing and wholesale and retail trade. The decline observed in the mining sector was largely because of lower production of zinc and uranium. Livestock marketing activity, particularly cattle and small stock marketed, slowed due to drought conditions in the previous year and thereby negatively affected the agricultural sector's production. Similarly, wholesale and retail trade, manufacturing, transport and storage and tourism activities were subdued. Activity in the communication, construction, and electricity sectors, however, improved, albeit modestly.
5. **Namibia's inflation declined during the first quarter of 2020, driven mainly by lower inflation for food, and housing and transport.** Inflation declined to 2.3 percent during the first quarter of 2020 from 4.5 percent during the corresponding quarter of 2019. The decline was largely reflected in a decrease in inflation for food, housing and transport. This was mainly on account of weak domestic economic activity and deflationary pressure in the rental market. The inflation rate dropped to 1.6 percent and 2.1 percent in April and May 2020, respectively, driven by declines in inflation for housing and transport.
6. **On the monetary front, growth in broad money supply (M2) and credit extended to the private sector rose during the first quarter of 2020.** The 12-month growth in M2 rose to 11.3 percent during the period under review, sustained by growth in domestic claims, particularly claims on the Central Government due to an increase in Government borrowing. Growth in credit extended to the private sector also increased due to a marginal rise in demand for credit by the household sector. The Bank of Namibia reduced its Repo rate twice during the first quarter of 2020, reaching the lowest recorded level. During its February 2020 meeting, the Monetary Policy Committee (MPC) reduced the Repo rate by 25 basis points to 6.25 percent, followed by a 100 basis points cut to 5.25 percent at its special meeting in March 2020. Furthermore, on the 15th of April 2020, the MPC cut the Repo rate by another 100 basis points to 4.25 percent to further cushion the negative impacts arising from the COVID-19 pandemic. During its June 2020 meeting, the MPC

further reduced the Repo by 25 basis points to 4.00 percent. This translates to a cumulative 250 basis point reduction in the Repo rate since the beginning of 2020.

- 7. On the fiscal front, Central Government's debt stock rose during the quarter to 31 March 2020 and the Central Government's budget deficit is estimated to widen considerably during the fiscal year 2020/21.** The Central Government's total debt as a percentage of GDP stood at 56.8 percent at the end of March 2020, representing a yearly increase of 7.7 percentage points. Total loan guarantees as a ratio of GDP also increased during the period under review but remained within the set ceiling of 10 percent. Going forward, the Central Government budget deficit in the fiscal year 2020/21 is estimated to rise to 12.5 percent of GDP, much higher compared to the previous fiscal year. The rise is mainly on account of Governments' effort to help save lives and to support livelihoods as well as to mitigate the effect of the COVID-19 pandemic on economic activity. In this regard, the Central Government expenditure is estimated to rise during 2020/21, compared to the previous year.
- 8. On the external sector front, Namibia registered a deficit on the current account during the first quarter of 2020, mainly due to a deterioration in the merchandise trade balance.** The current account recorded a deficit of N\$432 million during the first quarter of 2020, compared to a surplus of N\$312 million in the first quarter of 2019. The deficit was attributed to the worsening merchandise trade deficit, reflecting a significant decline in export earnings. The stock of international reserves, however, increased resulting in an import cover of 5.3 months at the end of the first quarter of 2020, compared to 4.9 months a year earlier. Both were above the international benchmark of 3.0 months. At the end of the first quarter of 2020, Namibia's international investment position recorded an increased net liability position of N\$18.6 billion compared to N\$16.3 billion a year earlier. The increased net liability position was mainly due to a reduction in foreign assets in the form of portfolio and other investment, as prices of assets declined sharply amidst the COVID-19 pandemic. The Namibia Dollar weakened against all major trading currencies during the first quarter of 2020 on the back of rising concerns over the COVID-19 pandemic.

The media and the public at large are encouraged to read the full Quarterly Bulletin, which can be accessed at [www.https://www.bon.com.na/Economic-information/Quarterly-Bulletins/Quarterly-Bulletins-Publication.aspx](https://www.bon.com.na/Economic-information/Quarterly-Bulletins/Quarterly-Bulletins-Publication.aspx).


Dr. Emma Haiyambo

Director of Strategic Communications and Financial Sector Development

Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na

