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BANK OF NAMIBIA RELEASES THE QUARTERLY BULLETIN – SEPTEMBER 2021

ACTIVITY IN THE DOMESTIC ECONOMY IMPROVED DURING THE SECOND QUARTER OF 2021

International economic and financial developments

- 1. Global GDP recorded a notable recovery in the second quarter of 2021, supported by the reopening of economies and successful vaccination roll-out, especially in major advanced economies (AEs).** The improvement in economic activity was sustained by the positive developments in the COVID-19 vaccine rollout, notably in the United States (US) and United Kingdom (UK), and reduced COVID-19 infections. The fiscal stimulus measures employed by AEs also contributed to improved economic activity. The recovery in industrial production continued during the second quarter of 2021, reflecting a low base year and ongoing economic recovery. Globally, the manufacturing sector sustained its expanding trajectory, although strained global supply chains continued to disrupt production schedules thereby putting upward pressure on input prices. The stock markets trended upwards during the quarter under review supported by positive global economic news and corporate earnings reports as well as the encouraging developments in the COVID-19 vaccine rollout globally. Having recovered from the setbacks in 2020, the rally in the commodity market continued up to August 2021, supported by the government stimulus in developed countries.
- 2. Central banks in the monitored economies maintained accommodative monetary policy stances during the quarter under review, except for two that increased their benchmark rates in response to rising inflation expectations.** Most of the monitored central banks kept their policy interest rates unchanged, except for Brazil and Russia that increased their benchmark rates. Moreover, all the monitored advanced economies'

central banks continued to implement non-conventional stimulatory monetary measures such as the purchasing of government bonds and agency mortgage-backed securities. The rising inflation, however, prompted the discussions around monetary policy to start leaning towards the inevitability of withdrawing some of the stimulus sooner. Annual average inflation rates ticked up amongst AEs and emerging market and developing economies (EMDEs) during the second quarter of 2021, mainly reflecting transitory supply-demand mismatches, high food prices in EMDEs and a low base set a year earlier.

Domestic economic and financial developments

- 3. During the second quarter of 2021, activity in the domestic economy improved, driven by better performance in the tertiary industry.** Improvements in the tertiary industry were mainly observed in sectors such as wholesale and retail trade, information and communication, and transport. Real turnover in the wholesale and retail trade sector increased due to base effects, following the COVID-19 related lockdown measures instituted during the second quarter of 2020. The communication subsector continued to sustain the growth in the information and communication sector. Activity in the transport sector increased broadly as observed in road, rail and sea cargo volumes. The tourism sector, although remaining weak, regained some of the ground lost in 2020 owing to developments in the tourist arrivals and the vaccine rollout globally. In contrast, the mining, agricultural, construction and manufacturing sectors continued to record negative growth. Activity in the mining sector slowed on the back of lower production registered in diamonds, uranium and zinc concentrate. Livestock marketing activity in the agricultural sector declined due to restocking by farmers. The construction sector slowed as both Government and private construction works weakened. Similarly, manufacturing sector activity continued to be dragged down by lower throughput of basic metals, following the halt in production of refined zinc since May of 2020.
- 4. Namibia's inflation rate rose during the second quarter of 2021, driven mainly by an increase in the inflation for housing, transport as well as food.** Inflation picked up by 1.9 percentage points to 3.9 percent during the second quarter of 2021 compared to the corresponding quarter of 2020. The rise in inflation was reflected in the transport, food and housing categories. Transport inflation rose on account of an increase in the international price of fuel, while the acceleration in the food inflation was driven by supply constraints particularly for meat. Furthermore, the rise in inflation for housing was driven by an increase in rental payment for dwelling subcategory. The inflation rate for August 2021 stood at 3.4 percent lower than the inflation rate of 4.0 percent registered during the

previous month. The slight decline on a monthly basis was due to a fall in the inflation rate for the categories such as food and transport, while that of housing rose, slightly offsetting the decline.

- 5. Growth in broad money supply (M2) and private sector credit extension (PSCE) remained subdued during the second quarter of 2021.** The 12-month growth in M2 slowed during the second quarter of 2021, mainly driven by a decline in domestic claims. The annual growth in PSCE stood at 2.8 percent in the second quarter of 2021 broadly similarly to the same period last year, sustained by credit extended to household particularly mortgage credit and overdraft facilities, while growth in credit advanced to the corporate sector slowed. Furthermore, money market interest rates edged higher during the period under review despite the Bank of Namibia maintaining its benchmark rate.
- 6. On the fiscal front, Central Government's debt stock rose over the year to the end of June 2021, owing to further issuances of Government securities as well as loans from the IMF and the AfDB to finance the budget deficit.** The total Government debt stock stood at N\$118.9 billion at the end of June 2021, representing a yearly and quarterly increase of 17.5 percent and 7.7 percent, respectively. The increases on a yearly and quarterly basis were driven by a rise in the issuance of both Treasury Bills and Internal Registered Stock, coupled with the disbursement of the IMF loan and supplementary financing from the AfDB to finance the budget deficit. As a percentage of GDP, Government debt rose on a yearly basis by 6.9 percentage points to 63.2 percent compared to a year ago. Central Government loan guarantees declined during the period under review, mainly due to repayments of foreign loans which were guaranteed by government for the energy and transport sectors, as well as the appreciation of the Namibia Dollar against the US Dollar.
- 7. Namibia's current account balance deteriorated on an annual basis during the second quarter of 2021, while the International Investment Position (IIP) recorded a net asset position compared to a net liability position recorded a year ago.** The current account balance as a percentage of GDP switched to a deficit of 7.1 percent compared to a surplus of 12.5 percent in the corresponding quarter of last year. The deterioration in the current account balance reflected both the lower secondary income account surplus, prompted by a significant fall in SACU receipts, and the switch in the merchandise trade balance, from a surplus to a deficit, as a result of increased import payments coupled with a decline in export earnings. The financial account balance

recorded a net capital inflow compared to a net capital outflow in the corresponding quarter of 2020. The net borrowing from the rest of the world was supported by inflows observed in other, portfolio, and direct investment. Namibia's international investment position reverted to a net asset position following a net liability position recorded a year earlier. The net asset position was on the back of an increase in foreign assets in the form of reserve assets and other investment that rose during the review period.

- 8. The stock of international reserves remained sufficient to support the currency peg, while the Namibia Dollar appreciated against major trading currencies.** The stock of international reserves stood at N\$41.8 billion at the end of June 2021, equivalent to an import cover of 6.3 months. The Namibia Dollar strengthened against major trading currencies during the second quarter of 2021, underpinned mainly by the COVID-19 base effects and stronger international commodity prices. Moreover, the real effective exchange rate appreciated during the period under review, signalling a moderate decline in competitiveness of Namibia's export products in foreign markets.

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).


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