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RELEASE OF THE BANK OF NAMIBIA QUARTERLY BULLETIN FOR THE FIRST QUARTER (JANUARY - MARCH) OF 2017

International economic and financial developments

- 1. The global economy broadly sustained its earlier growth momentum during the first quarter of 2017, although downside risks to growth remain for 2017 as a whole.** Among emerging-market economies, growth inched higher with the moderate improvement in the first quarter of 2017 largely reflecting better growth in Brazil, Russia and China. Economic activity for the monitored advanced economies, however, slowed marginally during the first quarter of 2017, but remained broadly in line with the projection for 2017. The pace of expansion in the advanced economies edged lower as growth was held back by a slowdown in the US.
- 2. The IMF projects the global economic growth to pick up somewhat in 2017.** In this regard, the global economy is projected to grow by 3.5 percent in 2017, higher than the growth rate of 3.1 percent in 2016. The growth in 2017 is expected to be mainly driven by strong financial markets, an improvement in commodity prices and a cyclical recovery in investment, manufacturing and trade. Risks to the outlook, however, include a shift to inward-oriented policies with lower global growth caused by reduced trade and cross-border investment flows, and an increase in geopolitical tensions in various parts of the world.
- 3. Inflation increased in advanced economies but declined in emerging and developing economies (EMDEs), while monetary policies remained generally accommodative in both sets of economies.** Inflation in the advanced economies increased, mainly attributed to a recovery in commodity prices, boosted by higher oil prices, while in the EMDEs inflation rates declined, as the impact of higher oil prices was offset by appreciation of exchange rates and an improvement in agricultural conditions. Monetary policy stances remained accommodative in both the advanced and emerging

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market economies, although becoming less accommodative in the United States, where the Federal Reserve raised its federal funds rate during the quarter under review.

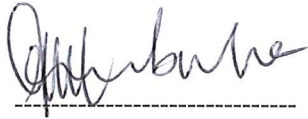
Domestic economic and financial developments

- 4. The domestic economy continued to display a weak performance during the first quarter of 2017, mainly as a result of contractions in the construction, wholesale and retail trade and manufacturing sectors.** Activity in the construction of both Government and private construction works contracted, in line with fiscal consolidation measures and the completion of major construction activity in the mining sector, respectively. The wholesale and retail trade sector continued to display a decline in real turnover during the period under review, driven by weak retail and motor vehicle trade activity. The manufacturing sector also performed poorly, mainly due to the poor performance of food, beverages and mineral processing. Tourism activity slowed during the first quarter of 2017, as mirrored in the decreasing number of room and bed nights sold as well as fewer regional arrivals, although arrivals from overseas increased. The agricultural sector also registered a decline in livestock marketing, as a result of restocking following good rainfall; the improved climatic conditions bode well for agricultural prospects. In the mining sector, production, particularly that of diamonds, zinc and gold, however, increased notably during the first quarter of 2017.
- 5. Namibia's inflation reached a peak during the first quarter of 2017, mainly driven by high inflation in the housing, transport and food categories, but slowed notably thereafter.** Namibia's inflation rate rose to 7.7 percent during the first quarter of 2017, from 6.0 percent and 7.3 percent during the first and fourth quarter of 2016, respectively. During the first half of 2017 inflation, however, slowed from its highest value of 8.2 percent in January 2017 to 6.3 percent in May, as mainly reflected in food price inflation that moderated significantly in the wake of improved climatic conditions.
- 6. With regard to the monetary and financial developments, the Monetary Policy Committee (MPC) maintained the Repo rate unchanged during the first quarter of 2017.** The Bank of Namibia maintained the Repo rate unchanged at 7.0 percent per annum throughout the first and second quarters of 2017, mindful of the need to maintain exchange rate parity with the South African Rand and to continue supporting the country's economic growth. Growth in Broad money supply (M2) slowed in the first quarter of 2017. The main contributors to the slower growth in M2 were the declining net foreign assets (NFA) of the depository corporations and slower growth in Private Sector Credit Extension (PSCE). Growth in PSCE slowed both on a quarterly and annual basis. The slower growth in PSCE

is reflected in the decelerating growth rates observed in most credit categories for both the household and corporate sectors during the review period.

- 7. On the fiscal front, Government's budget balance showed an improvement in the 2016/17 fiscal year and is estimated to narrow further in the 2017/18 fiscal year, mainly due to Government's fiscal consolidation efforts.** Central Government debt, however, increased during the period under review, as reflected in domestic borrowing, while foreign debt declined, as a result of revaluation effects due to the strengthening local currency. As a result, Government's total debt as a percentage of GDP rose to 41.4 percent at the end of March 2017, from 39.6 percent a year earlier. Furthermore, the ratio of Government loan guarantees to GDP rose to 5.4 percent from 4.8 percent over the same period and remained well below the threshold of 10.0 percent.
- 8. During the first quarter of 2017, Namibia registered a notably smaller deficit on the current account of the balance of payments than a year earlier.** The improvement in the current account deficit was attributed to a narrowing of the trade deficit due to lower imports in the wake of the weak domestic economy, coupled with reduced net investment income payments to the rest of the world. Alongside the smaller deficit on the current account, there was also a reduction in net financial inflows from the rest of the world. The stock of international reserves declined by 8.7 percent, quarter-on-quarter and 9.4 percent year-on-year to N\$22.6 billion at the end of March 2017, mainly attributed to the commercial banks' net capital outflows. At the end of March 2017, the country's International Investment Position (IIP) registered a net liability position, albeit small, as foreign liabilities rose faster than foreign assets in the first quarter.
- 9. With regards to the exchange rate, the Namibia Dollar appreciated against all the major trading currencies during the quarter under review.** When compared to the first quarter of 2016, the Namibia Dollar appreciated by 16.6 percent against the US Dollar, 27.8 percent against the Pound and 19.3 percent against the Euro during the period under review. The appreciation of the Namibia Dollar was mainly driven by external factors such as the recovery in the international prices of key export commodities of the Common Monetary Area (CMA), lower CMA imports, the ongoing accommodative monetary policies in key advanced economies, Brexit fears, as well as base effects resulting from the considerable depreciation that took place during the corresponding quarter of 2016. The Real Effective Exchange Rate (REER) appreciated both on a quarterly and annual basis during the first quarter of 2017, implying that Namibia's external competitiveness deteriorated.

The media and the public at large are encouraged to read the full Report, which can be accessed at www.bon.com.na/publications



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