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**DOMESTIC ECONOMIC PERFORMANCE WAS SATISFACTORY DURING THE FIRST QUARTER (January- March) OF 2015.**

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**International economic and financial developments**

- 1. The global economy progressed on a steady growth path during the first quarter of 2015, mainly supported by improvements in the advanced economies, while growth in emerging market economies slowed.** Economic activities in the US improved on account of lower oil prices, strong household balance sheets and enhanced consumer confidence. Although growth in the UK slowed as a result of weak output in the construction, industrial and service sectors, it was nonetheless comparatively robust amongst the advanced economies. Growth in the Euro Area continued to improve gradually, mainly due to the depreciation of the Euro against the US Dollar. The Japanese economy, on the other hand, recorded a higher contraction, following low export volumes, a decline in industrial output and weak private consumption. Economic activities in emerging market economies were mixed, with China's growth moderating, while Brazil's economy remained in recession since the second quarter of 2014. Russia's economy also contracted during the quarter under review, mainly due to low oil prices and economic sanctions. Despite an improvement in South Africa's annualised GDP growth rate in the first quarter of 2015, the economy was negatively hampered by domestic and economic factors.
- 2. The Purchasing Manager Index (PMIs) for most of the advanced economies outperformed those of emerging economies and remained above the threshold level of 50.0, while international commodity prices declined.** PMIs for selected advanced economies were above the benchmark threshold level of 50.0, but the PMIs of emerging market economies remained below the benchmark level during the first quarter of 2015. Moreover, prices for commodities such as crude oil, copper and zinc declined, while uranium and gold prices rose during the quarter under review.

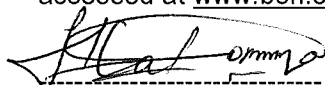
## Domestic economic and financial developments

- 3. The domestic economic performance was satisfactory during the first quarter of 2015, as reflected in activities across most industries.** The performance of the *primary industry* was mainly boosted by increased mineral production for diamonds and gold, while the production of uranium and zinc declined. Furthermore, the agricultural sector was supported by the higher number of cattle marketed in reaction to the drought. The *secondary industry* continued benefitting from investment activities in the construction of both public and private sectors, while the manufacturing sector performed poorly, as activities slowed in the mineral processing subsector. In addition, the *tertiary industry* displayed robust growth, due to high real turnover from the wholesale and retail trade. A rise in the number of new vehicles sold, strong land and sea cargo volumes, aided activities in the transport sector. The tourism sector improved slightly as reflected in the number of passenger arrivals, despite the decreased number of beds and rooms sold over the same period.
- 4. Namibia's headline inflation declined on average during the quarter under review.** The decline in the headline inflation was predominantly reflected in the categories *transport, housing, water, electricity, gas and other fuels and food and non-alcoholic beverages*. In this regard, Namibia's quarterly inflation slowed to 3.8 percent during the first quarter of 2015, from 4.9 percent during the fourth quarter of 2014. Similarly, the annual inflation rate for May 2015 was low at 3.0 percent, slightly higher from the rate of 2.9 percent during the previous month.
- 5. During the first quarter of 2015, credit aggregates continued to portray strong growth, while the Repo rate was increased over the same period.** Growth in private sector credit extension rose, year-on-year, although it declined on a quarterly basis. The Monetary Policy Committee (MPC) thus increased the Repo rate by 25 basis points, which was aimed to curb the high growth of credit extended to the household sector. Imports of vehicles, which are partly financed through instalment credit extended to individuals, continued to rise significantly. In this regard, the Bank of Namibia raised the Repo rate by a further 25 basis points to 6.50 percent at its last MPC meeting in June 2015.
- 6. The Government's fiscal position remained strong despite the widened budget deficit at the end of 2014/15, compared to the deficit recorded during the financial year 2013/14.** The Government's total debt and loan guarantees as ratios to GDP rose slightly to 24.0 percent and 3.2 percent, respectively, but remained below the

Government's ceilings and thus pose no immediate risk to the government's fiscal position.

7. **During the first quarter of 2015, the overall balance of payments recorded an increased deficit, whereas the surplus in the net asset position of the International Investment Position (IIP) was lower.** The higher deficit of N\$1.2 billion in the external balance was primarily due to the deficit in the current account and slower net capital inflows in the capital and financial account. The level of international reserves continued to decrease, mainly as a result of high imports and net payments by Government. The high imported goods and services in relation to reserves reduced the import cover below the international benchmark of 3.0 months to 1.9 months from 2.4 months during the corresponding quarter of 2014. In addition, the International Investment Position (IIP) registered a reduced net asset position, year-on-year, as Namibia's foreign liabilities rose faster than the foreign assets.
8. **The Namibia Dollar depreciated against the US Dollar and British Pound, while it appreciated against the Euro.** This depreciation was mostly due to socio-economic challenges in the South African economy, which are mainly linked to slow economic growth and electricity blackouts. The Namibia Dollar's appreciation against the Euro was as a result of the European Central Bank's monetary expansion programme, coupled with an increasing prospect of Greece's exit from the Euro Area.
9. **Looking ahead, global growth is expected to expand in 2015, but the low international commodity prices remain a major risk to the domestic outlook.** The IMF has projected global growth at 3.5 percent in 2015, mainly driven by the advanced economies, while growth in emerging market economies is projected to slowdown. The slow growth in emerging economies is ascribed to weaker economic prospects in some of the larger economies as well as from the oil-exporting ones. In this regard, key downside risks to the outlook include geo-political tensions in the Middle East and Eastern Europe, which could impact global as well as domestic oil prices. Furthermore, low commodity prices, remain a risk to Namibia's export earnings going forward.

The media and the public at large are encouraged to read the full Report, which can be accessed at [www.bon.com/publications](http://www.bon.com/publications)



Ndangi Katoma

**Director: Strategic Communications and Financial Sector Development**

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