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FOR IMMEDIATE RELEASE

BANK OF NAMIBIA RELEASES THE QUARTERLY BULLETIN – JUNE 2021

DOMESTIC ECONOMIC ACTIVITY REMAINED WEAK DURING THE FIRST QUARTER OF 2021

International economic and financial developments

- 1. The first quarter of 2021 recorded an improvement in global economic activity compared to the previous quarter as suggested by a range of indicators.** In the monitored economies real GDP growth generally recovered further in the first quarter of 2021. The conditions in the global manufacturing sector continued to improve, with industrial production gradually returning to pre-pandemic levels. Industrial production in China recorded strong positive year-on-year growth rates in early 2021, on the back of lockdowns in the first quarter of 2020. However, many economies' industrial production annual growth rates remain in negative territory or close-to-zero, albeit showing signs of recovery. Purchasing Managers' Index (PMI) numbers were in expansionary territory across the board and significantly higher than in the previous quarter. This was boosted by the gradual rollout of vaccines and additional fiscal support in some of the major economies. In addition, many economies were now coping better with measures adopted to suppress the COVID-19 virus, which also aided in boosting global economic prospects. Expectations for a stronger recovery were also reflected in financial and commodity markets, with oil prices returning to their pre-pandemic levels as the world strives to put the impact of COVID-19 pandemic behind. In this connection, rapid vaccination is the key to earlier recovery.
- 2. Many central banks in the monitored economies maintained accommodative monetary policy stances during the first quarter of 2021, despite the emergence of inflationary pressures.** The monitored central banks kept their policy interest rates

unchanged during the first quarter of 2021 apart from two central banks that increased their benchmark rates. 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. Inflation rates in most of the monitored advanced economies and emerging market and developing economies began to edge up in part due to increases in commodity prices, higher energy prices and in some instances, currency depreciation.

Domestic economic and financial developments

- 3. During the first quarter of 2021, activity in the domestic economy slowed driven by weak performances in most key sectors of the economy.** Declines were observed in livestock marketing activity and in the mining, construction, manufacturing, wholesale and retail trade and tourism sectors which continued to endure the impact of the COVID-19 pandemic. The mining sector decline was attributed to lower production of diamonds, zinc concentrate and gold. Livestock marketing activity in the agricultural sector declined due to restocking by farmers. Activity in the construction sector declined, as both Government and private construction works weakened and the tourism sector remained depressed, as reflected in lower numbers of tourist arrivals. Moreover, the manufacturing sector decline was driven mainly by lower output of refined zinc, blister copper and beer. Likewise, real turnover in the wholesale and retail trade sector decreased during the quarter under review, due to low demand, as the impact of the COVID-19 pandemic continued to persist. Signs of improvement were, however, observed in the sea cargo volumes and new vehicles sold, while communication sector value added also continued to rise during the period under review.

- 4. Namibia's inflation rate rose during the first quarter of 2021, driven mainly by higher inflation for food and housing.** Inflation rose to 2.8 percent during the first quarter of 2021 from 2.3 percent during the corresponding quarter of 2020. The rise largely originated from inflation for the categories of food and housing during the period under review. Food prices increased on account of supply constraints particularly for meat, while rent deflation recorded in 2020 in the rental payment for dwelling subcategory made way for moderate rent increases in 2021. The inflation rate accelerated notably to 3.9 percent in April 2021, mainly driven by inflation for transport and housing, water, electricity, gas and other fuels, before moderating only marginally to 3.8 percent in May 2021.

- 5. Growth in both money supply (M2) and credit extended to the private sector slowed during the first quarter of 2021.** The 12-month growth in broad money supply slowed during the first quarter of 2021 driven by a deceleration in claims on other sectors in the form of credit extended to the private sector. Growth in credit extended to the private sector slowed to 2.0 percent in the first quarter of 2021 from 6.1 percent during the corresponding quarter of 2020, mainly due to lower demand for credit and more cautious supply. Furthermore, money market interest rates moved broadly sideways at significantly lower levels than a year ago, consistent with the Bank of Namibia's repo rate.
- 6. On the fiscal front, Central Government's debt stock rose over the year to the end of March 2021.** The total Government debt stock stood at N\$110.3 billion at the end of March 2021, accounting for a yearly increase of 9.9 percent. The yearly increase was driven by a rise in the issuance of both Treasury Bills and Internal Registered Stocks to finance the Central Government budget deficit. As a percentage of GDP, Government debt rose yearly by 6.3 percentage points to 62.0 percent compared to a year ago. However, total loan guarantees as a ratio of GDP declined slightly yearly by 0.3 percentage point to 6.4 percent and therefore remained within the Government's set ceiling of 10 percent of GDP. Going forward, the Central Government budget deficit for the fiscal year 2021/22 is estimated to narrow to 8.6 percent of GDP, lower compared to the 9.5 percent registered during the previous fiscal year. The decline was due to the reduction in Central Government expenditure as the Government resumed the fiscal consolidation programme by gradually aligning expenditure to the expected revenue.
- 7. Namibia's current account deficit worsened both on an annual and quarterly basis, while the International Investment Position recorded an increased net asset position.** The current account balance switched to a deficit of N\$4.0 billion compared to a surplus of N\$163 million during the corresponding quarter of 2020. The deficit recorded during the period under review was also higher than the deficit of N\$466 million recorded in the previous quarter. The deficit in the current account was mainly attributed to a deterioration in the merchandise trade deficit, reflecting a significant decline in export earnings and an increase in import payments, coupled with increased net outflows on the services account - particularly payments for transportation and government services. As a percentage of GDP, the current account deficit widened to 8.7 percent in the first quarter of 2021 from 1.0 percent in the preceding quarter. 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 *portfolio* and *direct investment*. The stock of international reserves stood at N\$34.7 billion at the end of March 2021, representing import cover of 5.5 months. At the end of the first quarter of 2021, Namibia's international investment position recorded a net asset position, switching from a net liability position a year ago as foreign assets rose while the country's foreign liabilities declined. The Namibia Dollar weakened year-on-year against the British Pound and Euro mainly driven by a widening fiscal deficit, weak growth prospects and a peak in the daily COVID-19 cases at the beginning of the year in South Africa. On the contrary, the Namibia Dollar appreciated against the US Dollar as the US Dollar weakened in international currency 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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