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FOR IMMEDIATE RELEASE

BANK OF NAMIBIA RELEASES THE SEPTEMBER 2023 QUARTERLY BULLETIN

DOMESTIC ECONOMIC ACTIVITY INCREASED DURING THE SECOND QUARTER OF 2023

International economic and financial developments

1. **The first half of 2023 witnessed remarkable performance in the global economy, primarily driven by the growth in the US and Chinese economies.** In the US, economic resilience shone through during the second quarter of 2023, bolstered partly by household spending stemming from savings accumulated during the pandemic and substantial income growth. Meanwhile, the Chinese economy registered vigorous growth, mainly due to a low base effect. Russia, too, experienced robust growth, driven by significant defense expenditures. In stark contrast, economic growth in the Euro Area remained fragile. Labour markets remained tight in most Advanced Economies (AEs). Despite lingering risks related to food security, geopolitical risks, fragmentation concerns, and uncertainty surrounding the path of monetary policy tightening, the global economy continues its gradual recovery from the dual challenges of the pandemic and Russia's-Ukraine invasion.

2. **Most central banks in the monitored economies continued to tighten monetary policy rates during the second quarter of 2023 in response to elevated inflation levels.** The majority of central banks in the monitored advanced economies and the emerging markets and developing economies increased their policy rates. In the advanced economies, the US Federal Reserve, European Central Bank and Bank of England increased their policy rates to address rising inflation and wage growth. On the contrary, the Bank of Japan left its policy rate unchanged over the same period. In the emerging market and developing economies, the South African Reserve Bank increased its policy rates, while the central banks of Brazil, Russia and India kept their rates unchanged, during the review period. The People's Bank of China reduced its policy rate during the corresponding period.

Domestic economic developments

3. **During the second quarter of 2023, the domestic economy experienced notable growth, although slightly lower when compared to the previous quarter and the corresponding quarter of 2022.** On a yearly basis, the economy registered a growth rate of 3.7 percent during the second quarter of 2023, lower than the 8.5 percent recorded in the corresponding quarter of 2022. In the primary industry, contractions in the sectors such as agriculture & forestry and fishing, weighed on overall economic activity. However, the mining and quarrying sector continued to sustain growth in this industry. Moreover, activity in the secondary industry slowed, mainly owing to a deep contraction in the construction sector. Strong growth in wholesale & retail trade, information and communication, the transport and storage as well as tourism sectors were the main sources of growth in the tertiary industry.

4. **Namibia's inflation declined on a quarterly basis during the second quarter of 2023, primarily due to a significant drop in transport inflation, although it remained higher than the previous year.** Inflation decreased to 5.9 percent during the second quarter of 2023, down from 7.1 percent in the previous quarter. This reduction in inflation was mainly driven by a decline in the inflation for transport and food owing to decelerating pump prices as international oil prices stabilised. Additionally, a notable decrease in vegetable oil and fat inflation as well as good grain harvests in South Africa also contributed to the decline in the inflation rate. On an annual basis, overall inflation showed a slight increase of 0.2 percentage point, rising from 5.7 percent in the second quarter of 2022, primarily due to higher inflation in the food and housing subsectors. Meanwhile, headline inflation for August 2023 reached 4.7 percent, up from 4.5 percent recorded in the previous month.

5. **Growth in broad money supply (M2) rose during the second quarter of 2023, driven by an upsurge in net foreign assets (NFA), while private sector credit extension (PSCE) slowed over the same period**. The rise in M2 growth during the second quarter of 2023 was fuelled by an increase in NFA of the depository corporations, driven in part by higher diamond proceeds and the Heineken/Namibia Breweries Limited sale and increased government payments over the review period. On the contrary, growth in credit extended to the private sector slowed relative to the same period of 2022, underpinned by a slowdown in demand for credit coupled with repayments by businesses. Furthermore, money market interest rates rose in the quarter under review as policy rates increased,

alongside improved liquidity levels influenced by increased diamond sale proceeds as well as government transfers.

6. **On the fiscal front, the Central Government's debt stock rose through the fiscal year to the end of June 2023, whereas Government loan guarantees declined.** The Government debt stock stood at 64.2 percent of GDP at the end of June 2023, representing an annual decline of 1.8 percent during the period under review, compared to the corresponding period in the previous year. The decline was driven by both domestic and external debt as a percent of GDP, owing to a faster rise in nominal GDP compared to debt. Central Government's total loan guarantees declined on a yearly basis to 4.3 percent of GDP, from 5.3 percent of GDP a year earlier. The decline was due to repayments of foreign loans guaranteed by Government in the transport sector, communication sector as well as for development finance institutions.

7. **On the external sector front, there was a notable reduction in the current account deficit during the second quarter of 2023, primarily driven by improvements in both the secondary income and the merchandise trade balance.** The current account deficit shrank to 4.4 percent of GDP from 11.6 percent registered in the corresponding quarter of 2022. This positive development was mainly attributed to a stronger merchandise trade balance, supported by increased receipts from the secondary income account, driven by a substantial rise in SACU receipts and reduced outflows in the services account. The stock of international reserves rose to a level of N$53.0 billion, equivalent to an import cover of 5.1 months, mainly due to FDI inflows from the disposal of equity by resident enterprises in the manufacturing sector, capital inflows from AfDB and KfW loans as well as net foreign currency placement by commercial banks.

The media and the public at large are urged to read the full Quarterly Bulletin, which can be accessed at: https://www.bon.com.na/Publications/Quarterly-Bulletins/Quarterly-Bulletins-Publication.aspx

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