

Date: 29 September 2017

Attention: The News Editor

Ref: 9/6/2

FOR IMMEDIATE RELEASE

DOMESTIC ECONOMIC PERFORMANCE CONTINUED TO BE WEAK DURING THE SECOND QUARTER (APRIL - JUNE) OF 2017

International economic and financial developments

- 1. The global economic recovery continued during the second quarter of 2017, although downside risks to growth remain for 2017.** Economic activity in the monitored Advanced Economies (AEs) improved slightly in the second quarter of 2017, compared to the preceding quarter, driven mainly by the US, Eurozone and Japanese economies. Growth in the US was boosted by increases in fixed asset investment, consumption, and federal government spending, low unemployment numbers, higher wage earnings and solid growth in disposable income. The Eurozone and Japanese economies recorded higher growth rates in the second quarter of 2017, mainly fuelled by an improvement in the external sector and stronger domestic demand, respectively. In addition, Emerging Market and Developing Economies (EMDEs) growth pointed to an improvement for most of the monitored economies except for India. Downside risks to the 2017 global outlook include a shift to inward-oriented policies, which may reduce trade and cross-border investment flows, and increasing geopolitical tension around the Korean Peninsula. The inward looking policy sentiment currently prevailing threatens to lower global growth. In addition, the more supportive policy tilt in China, especially strong credit growth, comes with rising downside risks to medium-term growth.
- 2. Inflation for the monitored AEs were mixed but decelerated in the EMDEs, while monetary policy stances remained generally accommodative during the second quarter of 2017.** Inflation in Japan and the UK accelerated significantly, quarter-on-quarter, but slowed somewhat in both the Eurozone and the US, while it declined in the EMDEs. The US Federal Reserve raised its policy rate, while the benchmark central bank interest rates in the other monitored AEs remained unchanged, whereas some emerging market economies also eased their policy interest rates during the review period.

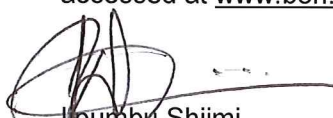
Domestic economic and financial developments

- 3. The domestic economy displayed tentative signs of weakness, year-on-year, during the second quarter of 2017, resulting from contractions in wholesale and retail trade as well as construction activity, while inflation decelerated.** The wholesale and retail trade sector continued to display a decline in real turnover during the period under review, driven by weak activity in the retail trade subsector. Similarly, activity in the construction sector decreased reflecting a slowdown in Government construction works. A rise in production was, however, observed in the mining, agricultural and transport sectors during the second quarter of 2017. Furthermore, inflation slowed both quarterly and annually by 1.3 percentage points and 0.3 percentage point, respectively, to 6.4 percent during the second quarter of 2017, mainly driven by lower food inflation, whereas housing and transport inflation remained sticky. Meanwhile, during August 2017, inflation remained at 5.4 percent, the same as recorded in July 2017, and also the lowest level since February 2016.
- 4. With regard to the monetary and financial developments, the Bank of Namibia kept its policy rate unchanged, during the second quarter of 2017.** The Monetary Policy Committee (MPC) kept the Repo rate unchanged at 7.00 percent at its June 2017 meeting, mindful of the need to maintain the one-to-one peg between the Namibia dollar and South African Rand without compromising growth. However, at its August 2017 meeting, the MPC reduced its policy rate by 25 basis points to support the weaker sectors of the economy in an effort to mitigate the subdued growth outlook. The growth in M2 moderated on a year-on-year basis, but rose quarter-on-quarter, in the period up to the end of the second quarter. The major contributors to the slower growth in M2 at the end of the period under review were the subdued growth in net foreign assets (NFA) of the depository corporations and the slowdown in the growth of private sector credit extension (PSCE). The slower growth in PSCE is reflected in most credit categories for both the individual and corporate sectors during the review period, and was consistent with the sluggish economy and, most recently, lower inflation.
- 5. On the fiscal front, Government's total debt continued to increase, year-on-year, reflected in both the domestic and foreign borrowings.** As a result, Government's total debt as a percentage of GDP increased to 41.0 percent at the end of June 2017, from 37.5 percent a year earlier. Moreover, Government loan guarantees as a ratio to GDP increased to 5.2 percent, from 4.2 percent over the same period, remaining well below the threshold of 10.0 percent.



- 6. On the external sector front, the current account deficit improved markedly, both on an annual and quarterly basis, during the review period, largely supported by a declining import bill and higher SACU receipts.** The current account registered a deficit of N\$669 million during the quarter under review, lower compared to N\$6.0 billion recorded in the corresponding quarter of 2016. This mirrored the notably smaller trade deficit that was recorded over the same period, as the value of merchandise imports declined significantly, consistent with the generally weak level of economic activity, coupled with the completion of major projects. The stock of international reserves increased significantly in the second quarter of 2017, following the receipt of the first tranche of an African Development Bank (AfDB) loan incurred by Government. This resulted in an increase in the level of import cover to 4.9 months at the end of the quarter under review. Namibia's International Investment Position (IIP) recorded an increased net liability position on a yearly basis, although this slowed on a quarterly basis. During the second quarter of 2017, the Namibia Dollar appreciated against the US Dollar, Pound and Euro, year-on-year. This was attributed to a recovery in the Rand/Namibia Dollar pair from overly depreciated levels a year earlier and to external factors prevailing in the advanced economies. On a quarterly basis, however, the Namibia dollar depreciated against the Pound and the Euro.
- 7. The global economy is projected to register a higher growth rate in 2017, compared to 2016.** The IMF has projected that the global economy will register a higher growth rate of 3.5 percent in 2017, compared to 3.2 percent in 2016. Both the AEs and the EMDEs are expected to grow more firmly in 2017. The main driver of global economic growth is expected to be the US, while EMDE growth is set to benefit as Russia and Brazil are projected to come out of the recessions that they experienced in 2016. Downside risks to the 2017 global outlook include a shift to inward-oriented policies, which may reduce trade and cross-border investment flows, and increasing geopolitical tension around the Korean Peninsula. Further, the inward looking policy sentiment currently prevailing threatens to lower global growth.

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



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