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FOR IMMEDIATE RELEASE

**DOMESTIC ECONOMIC PERFORMANCE WAS FRAGILE DURING THE FIRST
QUARTER (JANUARY- MARCH) OF 2016.**

International economic and financial developments

- 1. The global economy remained fragile during the first quarter of 2016, as growth was almost unchanged in the advanced economies, while that of emerging market economies slowed.** In the advanced economies, GDP growth in the US and Euro area were flat, while it moderated in the UK. In contrast, the Japanese economic growth expanded during the period under review, on the back of firm exports and increased economic activities. In Emerging Market Economies (EMEs), economic growth in Brazil, Russia and South Africa contracted during the first quarter of 2016, while that of China slowed. The Russian and South African economies contracted during the first quarter of 2016, due to risks, uncertainty in the global economic growth and financial market conditions. Brazil's GDP declined, as investment and consumption continued to fall, while the Chinese economy slowed further over the same period. On the contrary, India continued to record positive GDP growth, boosted mainly by private spending.
- 2. The PMIs for most of the advanced economies remained above the threshold level of 50.0 and continued to outperform those of emerging economies, while international commodity prices declined.** The Purchasing Managers Indices (PMIs) for the advanced economies remained above the 50 mark, signalling an expansion in the manufacturing sector. On the contrary, PMIs of EMEs were below the 50 mark, which showed signs of contraction in the manufacturing sector, during the period under review. Headline inflation for advanced economies picked up moderately during the first quarter of 2016, with the exception of the Euro area and Japan. In contrast, inflation in the EMEs declined, except for South Africa and China, where it rose over the same period. Commodity prices continued to decline during the period under review on the back of weak global market demand and fragile Chinese economic prospects.

Domestic economic and financial developments

3. **Economic activities in the domestic economy slowed, year-on-year, during the first quarter of 2016, mainly attributed to the low production of diamonds, zinc, agriculture, transport and construction.** The production of diamonds and zinc declined during the period under review, mainly owing to operational factors. The agricultural sector also performed dismally on account of the prevailing drought. Similarly, the transport and construction sectors recorded a decline over the same period, mostly due to decreased export volumes of some minerals and the decline in both public and private construction activities, respectively. Activities in the wholesale and retail trade and tourism sectors, however, rose on a yearly basis. The increased sales in the wholesale and retail trade sector were reflected in the subsectors of clothing, furniture, supermarkets and wholesale trade. Likewise, the yearly increase in tourism was largely reflected in the increased number of regional tourists during the period under review, while international tourist arrivals declined.
4. **Namibia's headline inflation increased on average during the quarter under review.** The rise was predominantly reflected in the categories *housing, water, electricity, gas and other fuels*, which carry the largest weight in the total inflation basket in Namibia, as well as *transport*. Namibia's average inflation rate rose both on a quarterly and annual basis, from 3.5 percent and 3.8 percent to 6.0 percent during the first quarter of 2016, respectively.
5. **With regard to the monetary and financial developments, growth in the monetary and credit aggregates slowed at the end of the first quarter of 2016, driven by slower growth in credit extended to the private sector.** Annual growth in credit extended to the private sector slowed to 13.0 percent at the end of first quarter of 2016, from 15.8 percent at the end of the corresponding period of 2015. This was due to slower growth in credit extended to the private sector, mainly as a result of lower demand for credit to the household sector, while that of businesses increased. All short-term money market rates rose during the first quarter of 2016, in line with the increased Repo rate.
6. **Government recorded a lower overall deficit as a percent of GDP in 2015/16, compared to the preceding fiscal year, which emanated mainly from a decline in operational expenditure.** Government total debt as a percentage of GDP, however, continued to increase, both year-on-year and quarter-on-quarter, at the end of the fourth quarter of the 2015/16 fiscal year. Similarly, total loan guarantees as a ratio of GDP also increased on a yearly basis, but declined, quarter-on-quarter.

7. **On the external sector front, the overall balance recorded a surplus during the first quarter of 2016, a turnaround from a deficit during the same quarter of 2015, whereas the surplus in the net asset position of the International Investment Position (IIP) slowed.** The surplus of N\$1.3 billion in the *external balance* was primarily due to higher net inflows in the capital and financial account, while the deficit in the current account widened. The stock of foreign reserves rose on both quarterly and annual basis to N\$24.9 billion at the end of first quarter of 2016, mainly due to the issuance of the Eurobond and JSE bonds as well as SACU receipts, respectively. As a result of the rise in reserves relative to imports, the import cover rose above the international benchmark to 3.4 months during the first quarter of 2016, from 2.0 months during the same quarter last year. The International Investment Position (IIP) recorded a reduced net asset position on an annual basis, as foreign liabilities rose faster than foreign assets.
8. **With regards to the exchange rate, the Namibia Dollar weakened against all major trading currencies, both year-on-year and on a quarterly basis, during the first quarter of 2016.** On an annual basis, the Namibia Dollar depreciated by 35.1 percent against the US Dollar, 27.2 percent against the Pound and 32.1 percent against the Euro. This was mainly attributed to factors affecting South Africa, coupled with the sluggish growth in emerging market economies.
9. **Going forward, the global economy is expected to pick up slightly to 3.2 percent in 2016, from 3.1 percent in 2015.** Risks to the global outlook, however, remain and include low commodity prices diminishing trade and capital flows, which continue to hurt developing economies in particular. The stronger US Dollar, tighter financial conditions, weaker global activity, as well as the British exit from the EU, could still dampen growth. For EMEs, low commodity prices, rising geopolitical risks, drought conditions, which will lead to low agricultural output, are expected to result in reduced economic 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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