Bank of Namibia

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FOR IMMEDIATE RELEASE

BANK OF NAMIBIA RELEASES THE JUNE 2024 QUARTERLY BULLETIN

DOMESTIC ECONOMIC ACTIVITY EXPANDED DURING THE FIRST QUARTER (JANUARY – MARCH) OF 2024.

International Economic and Financial Developments

1. **Global economic growth remained resilient during the first quarter of 2024, despite tight monetary policies.** High interest rates continued to exert pressure on both domestic and international demand. However, some Advanced Economies (AE's) benefited from strong labour markets and healthy household balance sheets, which will contribute to growth but slow down disinflation. Global inflation has declined since mid-2022 but remains sticky due to oil price increases, labour market tightness, and wage growth outpacing inflation in developed economies. Ongoing conflicts in the Middle East have disrupted trade and increased oil market volatility. While El Niño has subsided, concerns emerged about crop damage and potential food price increases due to hot and dry weather conditions in early 2024. Despite global interest rates peaking, central banks have remained cautious about initiating rate cuts due to possible inflation outlook shocks. The Euro Area, United Kingdom, China, Brazil and Russia all experienced higher growth in their GDP during the first quarter of 2024. Although the US and India registered a moderate decline in GDP growth during the quarter, economic activity in the two countries proved to be resilient.

2. **Going forward, global real GDP growth is expected to remain steady in 2024 and 2025.** The International Monetary Fund (IMF) projects global GDP growth to remain steady at 3.2 percent in 2024 and 2025. Key factors that may hinder growth include tight monetary policies and reduced fiscal support, as well as the long-term effects of the COVID-19 pandemic. The growth outlook for the Advanced Economies (AEs) is forecast at 1.7 percent in 2024. GDP growth in the Emerging Market and Developing Economies

PO Box 2882 Namibia, 71 Robert Mugabe Ave, Windhoek T : +264 (61) 283 5111 E: info@bon.com.na | www.bon.com.na

(EMDEs) is anticipated to moderate in 2024, to 4.2 percent. GDP growth for sub-Saharan Africa (SSA) is however expected to increase from 3.4 percent in 2023 to 3.8 percent in 2024 and 4.0 percent in 2025. This projection reflects the diminishing impact of previous weather-related challenges and a gradual improvement in supply-related challenges. Downside risks to global economic projections include escalating conflicts in the Middle East and Eastern Europe, which could lead to price volatility and disruptions in commodity markets. Other risks include financial strain caused by high real interest rates, persistent core inflation, lower-than-expected activity in China and trade fragmentation. Furthermore, extreme weather events such as floods and droughts, combined with general climate swings, may add to food inflation, worsening food insecurity and impeding the global disinflation process.

3. **Inflation decreased in most economies, except for the US, where consumer prices unexpectedly increased.** Though inflation still surpasses central banks' targets across most key economies, it has been decelerating in recent months. Despite this trend, monetary policies have remained broadly unchanged in recent policy meetings, except in Japan and Brazil, where there were increases and reductions in policy rates, respectively. Inflation is expected to decline in 2024 and 2025, although significant risks persist due to geopolitical factors, oil price fluctuations, and the deepening crisis in the Chinese property sector. The tightening of global monetary policy paused in the quarter being reviewed, in line with the decline in inflation. In recent months, however, policymakers acknowledged that the current policy is sufficiently restrictive to meet the inflation target and in its June meeting, the European Central Bank (ECB) reduced its key interest rates by 25 basis points to 4.25 percent, in line with declining inflation.

Domestic Economic Developments

4. **The domestic economy continued to grow but at a slower pace during the first quarter of 2024, primarily due to weak performance in the primary and secondary industries.** The economy registered a growth rate of 4.7 percent during the first quarter of 2024, down from the 5.3 percent growth recorded in the corresponding quarter of 2023. In the primary industry, the mining sector registered slower growth during the quarter under review, primarily due to weaker diamond production and a decline in uranium output, despite robust growth in oil and gas exploration activities. The agricultural sector was sustained by the drought-induced marketing of cattle and small stock, despite the adverse climate impact on crop production. Furthermore, activity in the secondary industry slowed and was dragged down by a decline in the manufacturing sector, mainly driven by a contraction in diamond processing.

Government construction and buildings completed contributed to slower growth in the construction sector, affecting overall growth in the secondary industry. However, the electricity and water sector displayed strong growth, driven by a high influx of water at the Ruacana hydropower plant. The tertiary industry saw robust growth, particularly in the wholesale and retail trade sector, supported by activities in sectors such as information and communication, financial services, public administration, education and health as well as hotels and restaurants.

5. **Namibia's annual inflation softened on both a quarterly and annual basis, primarily due to a deceleration in food inflation during the first quarter of 2024.** Inflation slowed to 5.0 percent during the quarter under review, compared to 5.7 percent registered in the previous quarter. The quarterly slowdown in inflation mainly stemmed from lower inflation for food and alcoholic beverages. Annually, overall inflation eased by 2.1 percentage points, dropping from 7.1 percent registered in the corresponding quarter of 2023, due to a decline in food and transport inflation. In May 2024, the annual inflation rate stood at 4.9 percent, an increase from 4.8 percent registered in April 2024. Going forward, overall inflation is projected to slow to 4.9 percent in 2024 and 4.5 percent in 2025, compared to an average of 5.9 percent in 2023.

6. **Growth in broad money supply (M2) rose during the first quarter of 2024, driven by an increase in Net Foreign Assets (NFA) of the depository corporations, while Private Sector Credit Extension (PSCE) slowed over the same period.** The rise in the growth in M2 during the first quarter of 2024 was driven by an increase in NFA of the depository corporations as a result of diamond proceeds and revaluation gains. In contrast, the annual growth in PSCE edged lower relative to the same period of 2023, driven by lower demand by both businesses and households. Furthermore, money market interest rates remained high during the quarter under review as policy rates remained elevated, alongside high liquidity levels influenced by increased diamond sale proceeds and government payments.

7. **On the fiscal front, the Central Government's debt stock and loan guarantees as a percentage of GDP declined at the end of March 2024, compared to the same period a year ago.** The Government debt stock declined to 66.0 percent of GDP at the end of March 2024 from 67.2 percent during the corresponding period in the previous year, owing to faster growth in nominal GDP compared to the rise in debt over the period under review. In nominal terms, central Government debt rose by 8.0 percent to N$153.8 billion at the end of March 2024 on the back of a rise in the issuance of both Treasury Bills (TBs) and Internal Registered Stock (IRS) as well as a rise in external debt. An increase in external

debt was caused by exchange rate depreciation, the disbursement of funding from the KFW Development Bank, and a loan from the African Development Bank (AfDB).

The Government's total loan guarantees as a percentage of GDP also declined on a yearly basis by 0.8 percentage points to 3.6 percent. The decline was due to repayments of domestic loans by the Government for some institutions in the agricultural sector, which defaulted on their loans, as well as the repayment of some loans that were guaranteed in the tourism and transport sectors.

8. **On the external sector front, the current account deficit remained elevated during the first quarter of 2024 whereas the stock of international reserves increased moderately over the same period.** The deficit on the current account widened to N$11.4 billion during the first quarter of 2024, from N$8.0 billion recorded a year earlier, largely on the back of a deterioration in both the merchandise trade balance and the services account. This was due to higher net outflows from the services account, which mainly reflected the heightened import of services for operating leases and technical and trade-related services for hydrocarbon exploration and appraisal activities. The higher merchandise trade deficit emanating from lower export receipts further contributed to the widening of the current account deficit. The stock of international reserves stood at N$54.3 billion at the end of March 2024, equivalent to 3.8 months of import of goods and services. The import cover excluding oil and gas-related imports which are funded from abroad stood at 4.3 months. Moreover, the International Investment Position (IIP) registered a net liability position at the end of the first quarter of 2024 due to higher growth in foreign liabilities relative to foreign assets.

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

Mr. Kazembire Zemburuka

Director: Strategic Communications and International Relations

Tel: (061) 283 5114 or email: info@bon.com.na