Media Release

Bank of Namibia

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FOR IMMEDIATE RELEASE

DOMESTIC AND INTERNATIONAL ECONOMIC AND FINANCIAL DEVELOPMENTS DURING THE SECOND QUARTER (APRIL - JUNE) OF 2013

International economic and financial developments

1. **During the second quarter of 2013, global economic growth showed some improvement, supported by economic recovery in some advanced economies and relatively high growth in leading emerging economies.** Improved growth in the economies of the UK, US and Japan largely contributed to an ensuing global economic recovery, while growth in some of the BRICs mirrored increased investments and brisk growth of agricultural and manufacturing output. The Euro Area, however, remained in a recession for the sixth consecutive quarter.

2. **Global equity markets lost some momentum in the second quarter of 2013 mainly on account of investors' focus on the expected reduction of the stimulus programme by the US Federal Reserve, as well as uncertainty over lasting economic performances of key emerging market economies.** The weakened position of equity markets was mainly ascribed to the statement by the Federal Reserve Bank Chairman, who indicated a possible early reduction in the pace of the bond purchase under its Quantitative Easing programme. Evolving capital outflows from emerging markets to advanced economies put pressure on exchange rates in emerging economies and the debate over the sustainability of recent high economic growth in leading middle income countries reopened.

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Domestic economic and financial developments

3. **During the second quarter of 2013, the Namibian economy displayed weak performance across all industries according to an array of high-frequency real sector indicators.** Within the primary industry, mineral production showed some fragile performance, while the agricultural sector improved as a result of the rise in the number of livestock marketed as farmers reduced their herds in response to the prevailing drought. Also, the secondary industry registered lacklustre performance, as mirrored in the declined output for the manufacturing sector, decreased demand of electricity, and weaker-than-expected economic performance in the construction sector. Likewise, the tourism and transport sectors performed weakly and contributed to a slowdown in the tertiary industry, despite some resilient growth in wholesale and retail trade.

4. **Growth in broad money supply (M2) and bank credit extended to the private sector continued to be robust by the end of the second quarter of 2013, amidst a low inflation environment.** A high growth in M2 mirrored an increase in domestic claims of the depository corporations, as businesses and households increased their bank borrowings. Growth in net foreign assets of the banking industry also rose along the registered in M2 growth. Meanwhile, Namibia's headline inflation declined from 6.4 percent in the first quarter of 2013 to 6.1 percent in the second quarter. The decline in overall inflation rates was mainly due to lower inflation rates for food & non-alcoholic beverages, transport and recreation, and culture than in the previous quarter.

5. **Namibia's fiscal position remains sustainable at the end of the second quarter of 2013.** The ratio of total debt to GDP declined both on a quarterly and yearly basis by 2.2 percentage points and 0.9 percentage points, respectively, to 22.2 percent over the same period, as GDP rose faster than debt accumulation.

6. **Namibia's external balance recorded a surplus in line with an increase in the stock of international reserves during the second quarter of 2013.** The significantly positive external balance was mostly attributed to a current account surplus than more than offset registered outflows in the financial account. The stock of international reserves rose on a quarterly basis by 8.2 percent to N$16.1 billion at the end of the second quarter of 2013 and was equivalent to 15.2 weeks of import cover by end-June 2013.

7. **Namibia's external competitiveness improved marginally during the second quarter of 2013, along a strong depreciation of the nominal exchange rate, although sustained increases in unit labour costs continue to pose a risk to Namibia's external competitiveness.** The depreciation of the REER implied that Namibian products were cheaper in the international markets. This was despite the increasing unit labour costs in the manufacturing sector, largely driven by a rising wage bill, which continued to pose a threat to Namibia's external competitiveness.

8. **Going forward, the emerging recovery of advanced economies could accelerate domestic economic growth, although the depreciation of the Namibia Dollar posses negative risks to the inflation outlook despite the registered gains in external competitiveness.** On the one hand, moderate expansions in the US and UK economies could possibly sustain Namibia's diamonds and beef exports to these markets, if the recovery continues. On the other hand, market fears about an early reduction of the US quantitative easing stimulus has compounded the depreciation of the South African Rand since May 2013. To date, the Rand's depreciation has not translated into an acceleration of Namibia's inflation, although it remains a risk to the economy. Going forward, the depreciation of the Rand could, however, make Namibia's exports competitive in international markets.

Ebson Uanguta
DEPUTY GOVERNOR

Issued by
Director: Department of Strategic Communications and Financial Sector Development at the Bank of Namibia,
Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na