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FOR IMMEDIATE RELEASE

DOMESTIC AND INTERNATIONAL ECONOMIC AND FINANCIAL DEVELOPMENTS DURING THE SECOND QUARTER (April – June 2012)

International economic and financial developments

1. **During the second quarter of 2012, the global economy remained clouded by a number of uncertainties and negative spillover effects from large industrialized economies on small open economies like Namibia.** This included a prolonged sluggish recovery of the US economy, the enduring crisis in the Euro zone, and the negative trade and finance transmission channels from the economic deceleration in industrialized economies on countries around the world. Moreover, concerns on debt sustainability and the implementation of austerity measures in the Euro zone adversely impacted international money markets and commodity prices. World-wide, economic growth and employment has been generally below potential, while monetary policy in most countries remaining broadly accommodative in a context of subdued inflationary expectations and depressed aggregate demand.

Domestic economic and financial developments

2. **Namibia's economic performance included some bright spots during the second quarter of 2012. Inflation came down** from 7.0 percent in the first quarter of the year to 6.0 percent in the second quarter. The decline in the inflation rate largely reflected the trend in international food prices at the time. At the same time, **there was a notable domestic economic activity,** mainly supported by a strong recovery in diamond production and export earnings within the primary industry, although economic activity in the agricultural sector remained fairly weak. The contribution of the secondary industry to real GDP growth was somewhat subdued. This is partly due to output volumes of manufacturing activities which continued to

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decline for the fifth consecutive quarter since the second quarter of 2011. Similarly, during the quarter under review, economic activity in the tertiary industry was weak, as reflected by a poor performance of tourism-related activities and wholesale and retail trade.

3. **Domestic and external imbalances were contained during the second quarter of 2012**. Namibia's external position benefited from sizeable foreign exchange inflows in the form of SACU receipts that helped finance a negative trade balance (spurred mainly by lasting strong growth in commodity imports) and led to increased gross international reserves. Large SACU receipts also limited the issuance of national debt to finance the central government's operations.

4. **On the monetary front, the growth of monetary and credit aggregates remained strong by the end of the second quarter of 2012.** M2 growth rebounded from a contraction in the previous quarter. With regards to growth in private sector credit, households continued to borrow at a brisk pace, while credit to businesses decelerated somewhat.

5. **Indicators of external competitiveness yielded some mixed results.** The nominal and real effective exchange rates depreciated during the second quarter of 2012. Also, the unit labour costs in the manufacturing of chemicals, food products and basic metals have been on the rise in the recent past, and this may have erode external competitiveness of these industrial segments.

6. **Going forward, Namibia is likely to confront a challenging international and domestic environment.** On the **external front**, the international experience from the post World War II period suggests that the recovery of world trade may happen at a slow pace, even under an optimistic scenario regarding the resolution of the Euro crisis. Also, there are looming signs of a surge in international food and energy prices propelled by weather and geopolitical conditions around the world that may further deteriorate Namibia's terms of trade. On the **domestic front**, the contribution to growth by traditional (mineral) export sector may be short-lived if Namibia's main trading partners failed to bolster growth and/or if recent trends with rising manufacturing sector's unit labour costs, compounded by a lasting appreciation of the real effective exchange rate, persist for long. Deceleration in the growth of the domestic tertiary sector may be an important drag on Namibia's overall economic growth, given the sector's share in total GDP. Domestic inflation is, however, likely to remain within a single-digit band in the near term.

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