Media Release

Bank of Namibia

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FOR IMMEDIATE RELEASE

DOMESTIC ECONOMIC PERFORMANCE WAS WEAK DURING THE SECOND QUARTER (April - June) OF 2016.

International economic and financial developments

1. **The global economy remained fragile during the second quarter of 2016, as growth in some advanced economies slowed, while that of the emerging market economies were mixed.** The US economy slowed, both year-on-year and quarter-on-quarter, during the second quarter of 2016, as inventories fell for the first time since 2011. Similarly, the growth of the Euro Area moderated on a quarterly basis, as a result of stagnation in the French economy. The latter stagnated due to a sharp slowdown in consumer spending and a fall in investments and exports. In contrast, the Japanese economy expanded, mainly boosted by private consumption and public investment, while capital expenditure fell much less than expected. The UK economy also improved, assisted by the strong performance of industrial production and manufacturing output. Economic activities in the emerging market economies were mixed with the Indian economy continuing to show robust performance during the period under review. The economies of Russia and Brazil, however, remained in recession, while there were signs of some stabilisation in China. The outlook of the South African and Angolan economies remains bleak.

2. **Monetary policy stances in both the advanced and emerging market economies remained generally accommodative, in line with low inflation rates, while commodity prices continued to decline on an annual basis.** Most monetary authorities in key advanced economies left their policy rates unchanged, with the exception of the Bank of England, which reduced its Bank Rate by 25 basis points to 0.25 percent in August 2016. Similarly, key emerging market economies maintained accommodative monetary policy stances in July and August 2016. Inflation rates in both the advanced and emerging market economies declined during the second quarter of 2016, with the exception of India, which rose over the same period. Commodity prices continued to decline during the period under review on the back of slow demand from the Chinese market and oversupply in the global market.

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Domestic economic and financial developments

3. **The Namibian economy displayed weak performance, year-on-year, during the second quarter of 2016, as a result of slowed activities in the mining, manufacturing, construction and transport sectors, while inflation rose over the same period.** Activities in the mining and manufacturing sectors continued to slowdown, largely due to operational challenges. Likewise, activities in the construction and transport sectors weakened over the same period. On the contrary, the performance in the wholesale and retail trade sector remained positive, although slowing down when compared to the same period of 2015. In the agriculture sector, the persistent drought led to increasing marketing activities, as farmers embarked upon the course of reducing their stock levels. The average inflation rate rose by 0.7 percentage point and 3.7 percentage points to 6.7 percent, on a quarterly and annual basis, respectively, predominantly due to the rise in the housing, water, electricity, gas and other fuels category.

4. **With regard to the monetary and financial developments, the Monetary Policy Committee (MPC) increased the Repo rate during the second quarter of 2015.** The Bank of Namibia increased the Repo rate by 25 basis points to 7.00 percent in April 2016, to align interest rates with that of South Africa and hence sustain the one-to-one link of the Namibia Dollar to the Rand. During the same period, the growth in money supply (M2) contracted, stemmed primarily from the declined growth in NFA. Similarly, growth in credit extended to the private sector (PSCE) slowed over the same period, contributing to the sluggish performance in M2. The slowed growth in PSCE stemmed from a decline in the borrowing activities of both the household and corporate sectors during the reviewed period.

5. **On the fiscal front, Government's total debt continued to increase, year-on-year, reflected in both the domestic and foreign borrowings, mainly in the Eurobond.** As a result, Government's total debt as a percentage of GDP increased to 35.8 percent at the end of the first quarter of 2016/17, from 25.7 percent at the end of the corresponding quarter of 2015/16. In contrast, Government loan guarantees as a ratio to GDP decreased to 3.6 percent, from 3.9 percent over the same period.

6. **The external sector recorded an overall deficit during the second quarter of 2016, a turnaround from a surplus recorded during the corresponding quarter of 2015, mainly due to the deficit in current account**. The current account registered a deficit of N$5.9 billion during the quarter under review, albeit lower, compared to the

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corresponding quarter of 2015. This is primarily due to a higher import bill, compared to export receipts. In addition, the capital and financial account recorded a reduced surplus over the same period. The net outflows registered in portfolio- and other short-term investments, as a result of increased investments abroad, contributed to the reduced surplus in the capital and financial account. The International Investment Position (IIP) recorded a reduced net asset position on a yearly basis, as foreign liabilities rose faster than foreign assets.

7. **With regards to the exchange rate, the Namibia Dollar depreciated against all the major trading currencies on a yearly basis, but appreciated on a quarterly basis, during the second quarter of 2016.** The weakening of the domestic currency on a yearly basis can be ascribed to South Africa's weak economic outlook, the persistent high inflation trajectory and the ever present fears of a sovereign credit downgrade, coupled with the effect of low commodity prices. On the other hand, the strengthening of the Namibia Dollar could mainly be ascribed to the substantial portfolio inflows in South Africa's bond and equity markets, following the UK's vote to exit the Euro Area in June 2016.

8. **Going forward, the performance of the global economy remained fragile as the impact of Brexit resulted in further volatility and uncertainty, which implies more downside risks to the outlook.** This has prompted the IMF to revise down the GDP growth for the global economy for 2016 and 2017. In this regard, the global economy is projected to grow by 3.1 percent in 2016 and 3.4 percent in 2017, lower by 0.1 percentage point projected earlier for both years, respectively. Risks to the outlook, however, remain; low commodity prices, geopolitical risks, diminished trade and capital flows, which could continue hurting developing economies.

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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