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FOR IMMEDIATE RELEASE

DOMESTIC ECONOMIC PERFORMANCE WAS SATISFACTORY DURING THE SECOND QUARTER (April - June) OF 2015.

International economic and financial developments

1. **The performance of the global economy improved during the second quarter of 2015, albeit moderately, mainly supported by strong economic activity in some advanced economies, while that of the emerging market economies slowed.** The US economy expanded, driven mainly by the improved performance in the construction, net trade and defence sectors, increase in consumer spending, which is boosted by cheaper gasoline prices and a stronger labour market. In the Euro zone, economic activities were stronger, mainly due to easing credit conditions and the recovery in domestic demand, while the UK's growth slowed further on account of a slowdown in the services and manufacturing sectors. The Japanese economy continued to be in the recession, due to the sluggish growth in household and foreign demand. GDP growth in both China and India remained unchanged on the back of amongst others, lower commodity prices and rebalancing demand in China. Russia's economic activities on the other hand contracted further, driven by weak consumption and economic distress related to geopolitical factors. South Africa's annualised GDP slowed during the second quarter, due to challenges such as electricity load shedding, the occasional strikes and volatile commodity prices.

2. **The PMIs for most of the advanced economies continued to outperform those of emerging market economies and remained above the threshold level of 50.0, while international commodity prices declined.** PMIs for selected advanced economies were above the benchmark threshold level of 50.0 during the second quarter of 2015, but remained below the benchmark level for the emerging market economies. Commodity prices continued their downward trend,

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3. **Central banks in the advanced economies maintained accommodative monetary policy stances, whilst the emerging market economies took divergent decisions.** Given the low inflation rates in the developed countries, central banks maintained accommodative monetary policy stances to support economic activity and stimulate demand. On the other hand, central banks in the emerging market economies took divergent decisions based on the economic conditions prevailing in their economies in terms of inflation, low growth and depreciating currencies.

Domestic economic and financial developments

4. **The Namibian economy displayed a good performance during the second quarter of 2015, as reflected in activities across most industries.** The strong sales in wholesale and retail trade, coupled with the increased construction activities in both the public and private sectors, mainly contributed to the buoyant performance in the real sector. The primary industry, however, encountered multiple challenges such as industrial actions, low grade carats in diamond production, operational and technical difficulties faced by uranium mining amongst others. The tourism sector also remained weak on the back of a decline in tourist arrivals, coupled with the decline in the number of beds and rooms sold during the period under review.

5. **Namibia's headline inflation declined further on average, during the second quarter of 2015.** The decline in inflation was predominantly reflected in the categories of transport; housing; water; electricity; gas and other fuels and food and non-alcoholic beverages. Namibia's quarterly inflation slowed on average, from 3.8 percent during the first quarter of 2015 to 3.0 percent during the quarter under review. Similarly, the annual inflation rate for August 2015 was low at 3.4 percent, although slightly higher from the rate of 3.3 percent during the previous month.

6. **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 6.50 percent in June 2015 to curb the high growth in credit extended to the private sector, in particular, the households. During the same period, the growth in M2 slowed mainly due to the decline in domestic claims, specifically net claims by Government. Furthermore, growth in credit extended to the private sector slowed down as a result of decreased demand for credit by both the household and corporate sectors.

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7. **On the fiscal front, Central Government's outstanding nominal debt stock and loan guarantees rose at the end of the first quarter of 2015/16, but remained within sustainable levels.** Government's total domestic debt increased in line with the Government borrowing plan. As a result, the ratio of debt and loan guarantees to GDP increased to 23.6 percent and 3.6 percent, respectively, but remained below Government's ceilings and posed no immediate risk to the Government's fiscal position.

8. **On an annual basis, the overall balance of payments recorded a surplus during the second quarter of 2015, whereas the surplus in the net asset position of the International Investment Position (IIP) reduced.** On a yearly basis, the surplus of N$2.5 billion in the overall balance was mainly due to net capital inflows in the capital and financial account, while the deficit in the current account continued. The capital and financial account registered a surplus during the second quarter of 2015, although lower, when compared to the corresponding quarter of 2014, mostly due to declines in other long-term and foreign direct investment (FDI) inflows. The level of international reserves continued to decrease, stemming from high payments for imports. The high imported goods and services in relation to the stock of international reserves reduced the import cover further below the international benchmark of 12 weeks to 7.7 weeks in the quarter under review, from 8.1 weeks during the corresponding quarter of 2014. Furthermore, the net surplus in the International Investment Position (IIP) continued slowing down on an annual basis, as foreign liabilities grew faster than foreign assets.

9. **On the exchange rate front, the Namibia Dollar weakened against the US Dollar and the British Pound on an annual basis, while it appreciated against the Euro.** The depreciation of the Namibia Dollar was primarily due to declining commodity prices, volatility in the Chinese equity market, coupled with robust economic data on trade, housing and employment in the US and the UK, respectively. On the other hand, the strengthening of the Namibia Dollar against the Euro can be contributed to weakness in the Euro against most currencies, resultant from a very accommodative monetary policy, including quantitative easing, in the Euro area.

10. **Going forward, growth in the advanced economies is expected to improve in 2015, while slowing down in the emerging market economies.** The slowdown in the Chinese economy is anticipated to negatively affect the exports revenue from metals, such as copper. Given its large current account deficit, South Africa is in a vulnerable position should the Fed start tightening, as this will result in more portfolio outflows from South Africa. This phenomenon could result in higher inflation rates, which would have undesirable effects on Namibia's import prices of various products from South Africa. On

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the other hand, the rebound in uranium prices will contribute positively to the GDP growth. Similarly, the positive outlook for the US GDP growth could result in improved exports of Namibia's diamonds. Downside risks to the global outlook, however, remain and include geopolitical tensions in Eastern Europe, the Middle East and West Africa. Other risks include the slow economic growth in the emerging market economies and a sharp appreciation in the US Dollar that could trigger financial tensions in the emerging market economies. Low inflation in the advanced economies could also hamper economic recovery. Further, slow progress in China's transition to a new growth model where the focus will change from fixed investments to consumption, is another downside risk to the global 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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