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FOR IMMEDIATE RELEASE

REPO RATE INCREASED TO 5.75 PERCENT

The global economy improved during the first quarter of 2014 and it is expected to expand further in 2014. Growth prospects for the Namibian economy look encouraging, but declining international commodity prices remain a risk. Inflation has shown an upward trend in recent months, but it is expected to average around 6 percent for the year. Similarly, the annual growth rate in domestic private sector credit has been increasing since December 2013. The rapid growth in imports of vehicles, partly financed by instalment credit, remains a concern. This has put pressure on the international reserves of the country and requires monitoring. In light of the above developments, the Monetary Policy Committee (MPC) decided to increase the Repo rate by 0.25 percentage points to 5.75 percent.

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1. Despite the contraction in the US economy, global economic growth improved during the first quarter of 2014, underpinned by growth in most advanced economies, while economic performance in a number of emerging market economies softened slightly. Going forward, global growth is expected to expand, however, weak demand, especially in the Euro Area, remains a risk.
2. The monetary policy environment in the advanced economies has remained largely supportive of growth, with the European Central Bank reducing its policy rate in June 2014. Central Banks in emerging market economies, such as Brazil and Russia, tightened their monetary policy stances during the first quarter of 2014, to contain inflationary pressures. Others, such as India and South Africa, maintained their policy rates unchanged to support economic activity since the last Monetary Policy Meeting.

Growth prospects for the Namibian economy look encouraging, although declining international commodity prices remain a risk.

3. Domestic growth remained positive during the first quarter of 2014, supported by construction, wholesale and retail trade, as well as the communication sectors. In contrast, activities such as livestock farming and uranium mining performed weakly.
4. Going forward, the domestic economy is forecasted to improve in the remainder of 2014, also supported by construction activities, as well as strong growth in demand. Declining international commodity prices remain a concern, as it may negatively affect mineral production.
5. Inflation has shown an upward trend for the past five months. Annual inflation rose from 4.9 percent in December 2013 to 6.1 percent in May 2014, mainly due to increases in food and transport prices. Despite this recent trend, inflation is expected to average around 6 percent for the year.
6. The annual growth rate in domestic private sector credit increased to 15.8 percent in April 2014, compared to 14.3 percent in December 2013. Growth in private sector credit resulted from higher demand by both individuals and businesses. The rise in household credit largely reflected strong growth in instalment credit and overdraft loans.
7. During the first quarter of 2014, the trade deficit increased significantly. A rapid growth in imports of vehicles, partly financed by instalment credit, remains a concern. The total number of vehicles sold during the first four months of 2014 increased by more than 50 percent, compared to the same period in 2013. The value of imported vehicles amounted to N\$2.2 billion, which is a significant amount in relation to the total import bill of goods of N\$15.9 billion. Unproductive imports have put pressure on international reserves of the country and require monitoring. Also, targeted interventions have been recommended to the relevant authorities, but this may take time to implement, due to legislative changes required, once agreed.



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Monetary Policy Meeting

On 17 June 2014, the Monetary Policy Committee of the Bank of Namibia held its bi-monthly meeting to decide on the monetary policy position for the next two months. The meeting reviewed global, regional and domestic economic and financial developments since the last meeting, held on 15 April 2014. The decision was taken to increase the Repo rate by 0.25 percentage points to 5.75 percent. The next meeting of the MPC will be held on 19 August 2014.



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