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FOR IMMEDIATE RELEASE

REPO RATE INCREASED TO 6.25 PERCENT

The Monetary Policy Committee (MPC) decided to increase the Repo rate by 0.25 percentage points to 6.25 percent. The decision was taken to contain persistently high growth in household credit, particularly that of overdrafts and instalment credit. MPC observed that a significant portion of new household credit is used to finance unproductive imported luxury goods, which continues to put additional pressure on the international reserves of the country.

Recent Economic Developments

The global economy remains on the gradual recovery path, supported by improved growth in some advanced economies, particularly the US, while growth in emerging market economies slowed. Monetary policy stances in general remained supportive to growth.

1. The global economy is estimated to have grown by 3.3 percent in 2014, unchanged from the previous year. Growth in the advanced economies was mainly backed by economies, such as the US and UK, while others, such as the Euro Area and Japan continued to be weak. Persistent pre-crisis challenges, namely, high private and public debt, continued to inhibit growth in the Euro Area. Growth in emerging market economies, which has been the backbone of global growth during the recent financial crisis, slowed.
2. Going forward, the IMF revised its global growth projection for 2015 downwards to 3.5 percent from 3.8 percent, on the back of weakening growth in the emerging

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market economies. Growth in the emerging market and developing economies is expected to slow to 4.3 percent in 2015 from 4.4 percent in 2014, while that of the advanced economies is expected to rise to 2.4 percent in 2015 from 1.8 percent in 2014. Such

3. With regard to monetary policy, both the Bank of Canada and the European Central Bank (ECB) relaxed monetary policy further at their recent meetings. In this regard the ECB expanded its asset purchase programme to support the economy. Some emerging market economies, such as Russia and India, also lowered their policy rates, while the South African Reserve Bank maintained its policy rate at 5.75 percent in January 2015, as inflationary pressures eased.

Economic growth in the domestic economy has generally been positive during 2014, with declining inflation. Risks, however, remain largely the declining commodity prices, the volatile exchange rate and the growing import bill.

4. Available data for the domestic economy showed improvements during 2014, supported mainly by robust public and private construction activities, diamond production and wholesale and retail trade.
5. Looking ahead, the domestic economy is expected to grow by 5.6 percent in 2015 from 5.3 percent estimated for the preceding year. The growth is expected to be driven mostly by construction activities, mainly in the mining sector. Risks to growth remain largely the looming drought, weak growth in economies of some of Namibia's major trading partners and depressed commodity prices. The latter could negatively affect export earnings, mining sector profits and employment.
6. Annual inflation slowed from the peak of 6.1 percent in June 2014 to 4.5 percent in January 2015, driven mostly by the lower inflation for food, transport and housing categories. The overall annual inflation is expected to remain low during 2015.
7. Total credit extended to the private sector (PSCE) grew strongly in 2014, due to increased credit to both businesses and households. During 2014, credit to the

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private sector increased by N\$9.7 billion compared to an increase of N\$7.4 billion in 2013. More than half of this credit was extended to households. In this regard, the MPC remains concerned about the high growth in credit extended to households, particularly that of overdrafts and installment credit, which grew by 23.8 percent and 18.9 percent, on average, over the last six months, respectively.

8. During 2014, preliminary indicators showed a widening trade deficit as a result of a higher import bill. The MPC notes that a significant portion of imports are for productive use, which will have economic benefits to the country in the future. The MPC, however, remains concerned about the increasing importation of unproductive goods, especially passenger vehicles and other luxury goods.
9. The stock of foreign reserves declined on a yearly basis by 13.7 percent to N\$16.0 billion at the end of January 2015 compared to the level a year before. This was mainly due to the high import bill. Despite this pressure, the international reserves remain adequate to maintain the one-to-one link of the Namibia Dollar to the Rand.

Monetary Policy Meeting

10. On the 17th February 2015, the Monetary Policy Committee (MPC) 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 the global, regional and domestic economic and financial developments since the last meeting, held on the 11th of December 2014 and the decision was taken to increase the Repo rate by 0.25 percentage points to 6.25 percent. The next meeting of the MPC will be held on the 14th of April 2015.



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