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FOR IMMEDIATE RELEASE

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**REPO RATE INCREASED TO 6.0 PERCENT**

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*The Monetary Policy Committee (MPC) decided to increase the Repo rate by 0.25 percentage points to 6.0 percent. The decision was taken to contain the strong growth in household credit, which is largely financing unproductive imported luxury goods and putting additional pressure on the international reserves of the country.*

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**Recent Economic Developments**

**Global economic growth improved slightly, during the second quarter of 2014, though below expectations, and is projected to expand, going forward.**

1. Global growth improved slightly during the second quarter of 2014, compared with an unexpected weakening in the first quarter. This was mainly supported by stronger growth in the US and China. Growth in the Euro Area remained relatively weak, while the Japanese economy contracted. Some emerging market economies, such as India and China are projected to continue registering strong positive growth. Going forward, global growth is expected to perform better compared with 2013, supported by activities in some major advanced and emerging economies.
2. The monetary policy environment in advanced economies continued to support growth, although the pace of the monetary expansion program in the US was reduced further in July 2014. In emerging market economies, the stance of monetary policy was mixed. South Africa and Russia raised policy rates to tame

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inflationary pressures. In contrast, China reduced the reserve requirement ratio for small commercial banks to stimulate growth in some parts of the country. Brazil and India left their policy rates unchanged to support economic activities.

**Domestic growth prospects continued to be encouraging with inflation remaining manageable, however risks remain. Strong growth in household credit remains a concern, especially when used to finance unproductive imported luxury goods.**

3. Available data shows that the domestic economy improved during the first half of 2014, driven mainly by construction, wholesale and retail trade, diamond mining, cereal production and the public sector. In contrast, activities such as uranium and zinc production performed poorly.
4. Going forward, the domestic economy is expected to improve for the remainder of 2014, supported by construction activities and strong domestic demand. The risk to growth remains the declining international commodity prices, due to depressed demand.
5. Annual inflation, which has been rising in the past six months, slowed in July 2014. Inflation rose steadily from 4.9 percent in January 2014 to 6.1 percent in May and June 2014, before dropping to 5.6 percent in July 2014. The slowdown in July was reflected mainly in food, transport and housing categories. Going forward, inflation is expected to average around 6 percent for 2014.
6. Credit to the private sector increased strongly to an average growth rate of 15.3 percent during the first half of 2014, from 13.9 percent registered during the last six months of 2013. This strong demand for credit came from both households and business sectors. The growth in household credit was mainly dominated by installment credit, overdrafts and other loans and advances, which regrettably are also used to finance unproductive imported luxury goods.

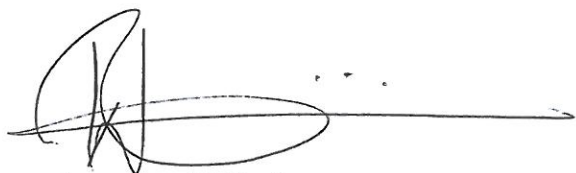
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7. During the first half of 2014, the trade deficit widened further as a result of the higher import bill. These imports consisted mainly of capital inputs, vehicles and other consumer goods. The Bank of Namibia remains concerned about the importation of unproductive goods, especially passenger vehicles and other luxury goods, which continue to exert pressure on the international reserves of the country.

### **Monetary Policy Stance**

On the 19<sup>th</sup> of August 2014, 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 17<sup>th</sup> of June 2014, and the decision was taken to increase the Repo rate to 6.0 percent. The next meeting of the MPC will be held on the 21<sup>st</sup> October 2014.



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