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REPO RATE REMAINS UNCHANGED AT 5.50 PERCENT

Since the last meeting of the monetary policy committee, global growth remained weak. However, patches of recovery have started to emerge, notably in the US and the UK. Moreover, the Euro Area appears to be emerging from recession, posting its first positive quarter on quarter growth in 18 months. Persistent global challenges are increasingly presenting downside risks to domestic growth, through falling commodity prices, and growth is expected to remain below the targeted level set in NDP4 for 2013. Inflation has slowed in July, and is expected to remain within tolerable levels for the remainder of the year. International reserve levels have increased since the last meeting of the MPC, and remain adequate to protect the fixed currency arrangement. Given the above, the Monetary Policy Committee is of the view that the repo rate needs to be maintained at the current level to support the domestic economy, and mitigate the impact of falling commodity prices and suppressed demand for Namibian export products. The Monetary Policy Committee has therefore decided to keep the repo rate unchanged at the current level of 5.50 percent.

Global growth shows signs of fragile recovery, while key commodity price developments remain cause for concern.

1. Growth in the UK and the US increased in the second quarter of 2013 when compared to the previous quarter, while the Euro Area experienced its first positive quarter on quarter growth in 18 months. However, fragility remains as unemployment is high, and growth continues to be below the long term average rate. In emerging market economies, growth has been suppressed, with a slow

down in South Africa, India, Russia and China, while growth in Brazil has remained largely unchanged at a low level.

2. Since the last meeting of the MPC, global food prices remain elevated but stable, while energy prices have increased marginally. On the other hand, metal prices that had experienced notable falls, have stabilised somewhat, albeit at lower levels than seen in the past 36 months. Notwithstanding the above, the global prices for key Namibian exports, most notably copper and uranium, continue to experience declines.

The domestic economy continues to grow, inflation is expected to remain stable, and foreign reserves continue to be adequate.

3. Selected indicators suggest that positive growth persists across various sectors of the domestic economy, and overall growth in the first half of 2013 is expected to be in line with the first half of 2012. Nevertheless, the growth outlook is overshadowed by declines in key commodity prices, particularly uranium and copper, high food and energy prices, and the negative impact of the current drought.
4. For the year as a whole domestic economic growth is projected to moderate to 4.7 percent, compared to the 5 percent seen in 2012. The primary industries are estimated to slow to 2.5 percent growth in 2013, due to the drought affecting agricultural output. In addition, some uncertainties in diamond and uranium production are expected to exert a drag on mining sector growth. Similarly, the tertiary industries are expected to slow to 4.5 percent growth in 2013, compared to the growth rate of 6.4 percent in 2012. Growth from the secondary industries is expected to increase in 2013, supported by construction activities.
5. Inflation fell to 5.8 percent in July, after rising marginally in June 2013. The fall was largely on account of a slow down in price increases in food items, as well as electricity, gas and other fuels. Transport inflation, however, increased in July when compared to June. Inflation is expected to remain stable, around current levels, for the remainder of the year. The lagged effect of Namibia Dollar

depreciation against major currencies continues to constitute a risk to the inflation outlook.

6. Private sector credit extension continues to experience high growth. This growth has been driven by strong demand for credit from both businesses and individuals, with mortgage loans particularly, seeing strong expansion. Instalment sales growth remains moderate, compared to the high levels seen in 2012.
7. Foreign exchange reserves increased since the last meeting of the MPC, predominantly due to receipts from SACU. At N\$18.1 billion at the end of July, international reserves remain adequate to maintain the fixed currency arrangement.

Monetary Policy Meeting

8. On the 20th of August 2013, 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 18th of June 2013, and the decision was taken to keep the repo rate unchanged at 5.50 percent. The next meeting of the MPC will be held on the 22nd of October 2013.


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