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FOR IMMEDIATE RELEASE

REPO RATE REDUCED TO 6.75 PERCENT

The Monetary Policy Committee (MPC) of the Bank of Namibia cut the Repo rate by 25 basis points to 6.75 percent. The MPC took the decision in order to support domestic economic growth, while maintaining the one-to-one link between the Namibia Dollar and the South African Rand.

RECENT ECONOMIC DEVELOPMENTS

The global economy is projected to improve slightly in 2017, compared to 2016.

1. The global economy is projected to grow by 3.5 percent in 2017, from 3.2 percent in 2016, supported by better growth prospects for both the Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs).
2. Economic activity in key AEs improved in the first quarter of 2017, relative to the previous quarter. Going forward, economic growth in the AEs as a whole is expected to improve to 2.0 percent in 2017 from 1.7 percent in 2016, largely reflected in a cyclical recovery in global manufacturing.
3. Economic growth in the EMDEs improved in the first quarter of 2017, with the exception of South Africa, which contracted for the second consecutive quarter. The contraction in South Africa's GDP is owed to low investment and consumption expenditure, sluggish exports and weak industrial growth. Growth rates in Russia, Brazil and China improved during the period under review, partly driven by an improved oil price and increased asset investment, while that of India moderated.

4. Downside risks to the 2017 global growth outlook remain and include the inward-oriented shift in policies, which may reduce trade and cross-border investment flows, and the increasing geopolitical tension around North Korea.
5. Since the last MPC meeting in June 2017, monetary policy stances in both key AEs and EMDEs were mixed. Most central banks in the AEs left their benchmark rates unchanged, with the exception of the US, which increased its policy rate by 25 basis points. The US Federal Reserve cited the impact of a strengthening labour market against the backdrop of a steadily declining unemployment rate, as a reason for the rise. On the other hand, several central banks in EMDEs cut their benchmark rates. The central banks of India, Russia and South Africa all cut their policy rates by 25 basis points, while that of Brazil cut its policy rate by 100 basis points to 9.25 percent.

Activity in the domestic economy remained weak during the first six months of 2017. Namibia's overall inflation rate slowed from its high point in January 2017. The average annual growth in private sector credit extension (PSCE) continued to slow down, while the stock of international reserves increased.

6. Activity in the domestic sector remained weak during the first six months of 2017, relative to the corresponding period of 2016. The weak performance was mainly reflected in the construction, manufacturing, wholesale and retail trade, as well as transport sectors. There were, however, over the same period a few pockets of improvement in sectors such as mining and communication as well as livestock marketed, that have provided some stimulus to the real economy.
7. Namibia's inflation rate averaged 7.0 percent during the first six months of 2017, compared to 6.3 percent during the corresponding period in 2016. Inflation, however, slowed from a peak of 8.2 percent in January 2017 to reach 5.4 percent in July 2017. A large part of the slowdown in inflation since the beginning of the year can be attributed to lower food inflation.
8. The growth in PSCE slowed during the first six months of 2017. The annual rate of PSCE growth stood at 8.5 percent on average during the review period, lower than the

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8. The growth in PSCE slowed during the first six months of 2017. The annual rate of PSCE growth stood at 8.5 percent on average during the review period, lower than the 12.5 percent recorded over the same period in 2016. This subdued growth is in line with the general weakness in the domestic economy. The slower growth in PSCE is primarily due to the reduced growth in credit advanced to both the household and corporate sectors, especially in the form of mortgage and instalment credit.
9. As at 31st July 2017, the preliminary stock of international reserves stood at N\$32.7 billion, representing an increase, both on a monthly and annual basis. The increase was mainly due to repatriation of funds by financial institutions, the African Development Bank (AfDB) loan inflow and the repayments by the National Bank of Angola. At this level, the stock of international reserves is estimated to cover 5.5 months of imports of goods and services, and thereby remains sufficient to sustain the currency peg between the Namibia Dollar and the South African Rand.

Monetary Policy Stance

10. On the 14th of August 2017, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting and reviewed global, regional and domestic economic and financial developments. The MPC was mindful of the lower inflation rate realised and projected for the Namibian economy, the strong fiscal consolidation drive and the improved international reserve position. Given the weak domestic economy, the MPC decided to cut the Repo rate by 25 basis points to 6.75 percent, with effect from the 16th of August 2017, to support domestic economic activity. The next meeting of the MPC will be held on the 17th of October 2017.


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