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## REPO RATE MAINTAINED AT 7.00 PERCENT

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*The Monetary Policy Committee (MPC) of the Bank of Namibia decided to maintain the Repo rate unchanged at 7.00 percent. This decision was necessary to continue supporting the country's economic growth, particularly in light of slow and fragile recovery in the economies of Namibia's trading partners.*

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## RECENT ECONOMIC DEVELOPMENTS

Global growth continued to be fragile during the first quarter of 2016. Monetary policy stances similarly remained generally unchanged for both Emerging Market Economies (EMEs) and advanced economies.

1. Economic growth in the advanced economies remained almost unchanged during the first quarter of 2016, with the exception of Japan, which improved. GDP growth in the US and the Euro area remained steady from the previous quarter, at 2.0 percent and 1.7 percent, respectively, while that of the UK moderated slightly to 2.0 percent. In contrast, the Japanese economic output expanded by an annualized growth rate of 1.9 percent on the back of firm exports and improved economic activities.
2. Most key emerging market economies continued to perform poorly. Economic activities in Brazil, Russia and South Africa contracted during the first quarter of 2016, while economic growth of China slowed. India, on the other hand, continued to record high growth of 7.9 percent during the period under review. Going forward, the global economy is expected to expand, although risks remain and include the

potential exit of the UK from the European Union, sustained low commodity prices and further slowdown in emerging market economies.

3. Since the last MPC meeting in April 2016, monetary policy stances in both the advanced and emerging market economies remained generally accommodative. All monetary authorities in key advanced economies left their monetary policy rates unchanged. Similarly, all key EMEs maintained accommodative monetary policy stances, with the Reserve Bank of India cutting its policy rate in line with declining inflation.

**The domestic economy registered satisfactory performance during the first four months of 2016, mainly driven by solid real sector growth. The annual inflation rate continued to rise, but remained manageable. Growth in Private Sector Credit Extension (PSCE) slowed, while the level of international reserves remained sufficient.**

4. The domestic economy performed satisfactory during the first four months of 2016. This performance was mainly on account of solid growth in the *wholesale and retail trade*, Government *construction* works, as well as the *manufacturing* sector. In contrast, activities in the mining sector slowed, mainly driven by the decline in the production of diamonds and zinc. Similarly, the agricultural sector slowed, reflecting the effects of the prevailing drought conditions. Going forward, growth is expected to continue to be positive, but risks remain and include the slowdown in the economies of the country's trading partners, soft commodity prices, volatile exchange rate and the effects of the prevailing drought conditions.
5. Namibia's annual inflation rate rose during the first five months of 2016. The average inflation rate increased slightly to 6.7 percent in May 2016 from 6.6 percent in the previous month. This was predominantly due to increases in the inflation rates for the categories *food and non-alcoholic beverages*, as well as *housing, water, electricity, gas and other fuels*. Going forward, annual inflation is expected to increase gradually for the remainder of the year, though remaining within manageable levels.

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6. Domestic demand as reflected in the annual growth of PSCE slowed over the first four months of 2016, when compared to the corresponding months in 2015. This was mainly due to lower credit extended to the corporate sector. During the first four months of 2016, the average annual growth in PSCE stood at 12.9 percent, which is lower than the 15.9 percent registered over the same period in 2015. Overall, the growth in credit extended to the households stabilised at 12.4 percent. Notably, over the comparable period, growth in instalment credit, which was previously highlighted as a concern, declined significantly from 20.1 percent to 13.1 percent.
7. Despite a recent decline in the stock of international reserves on a monthly basis, it remains sufficient to sustain the one-to-one link of the Namibia Dollar to the South African Rand. The level of international reserves stood at N\$22.1 billion as at the 13<sup>th</sup> of June 2016, which is equivalent to approximately 6.2 times the currency in circulation.

### **Monetary Policy Stance**

8. On the 14<sup>th</sup> of June 2016, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting and decided to maintain the Repo rate unchanged at 7.00 percent. This decision was taken, following a review of the global, regional and domestic economic as well as the financial developments since the last meeting held on the 12<sup>th</sup> of April 2016. The next meeting of the MPC will be held on the 16<sup>th</sup> of August 2016.



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