Bank of Namibia

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REPO RATE UNCHANGED AT 6.0 PERCENT

The Monetary Policy Committee (MPC) decided to leave the Repo rate unchanged at 6.0 percent. The decision was taken to support domestic economic activities, while monitoring the effects of recent monetary policy decisions. Growth in household credit remains high, although instalment credit started to show signs of moderation in recent months. The Bank remains concerned that strong household credit growth continues to largely finance unproductive imported luxury goods, which put additional pressure on the international reserves of the country.

Recent Economic Developments

Global economic growth slowed during the third quarter of 2014, due to a moderation in economic activities in the US and the UK, China and a contraction in Japan. Advanced market economies maintained monetary policy stances supportive of growth.

1. Growth in the US and the UK moderated, while the Japanese economy contracted once more, placing it in a recession. In the emerging market economies, China continued to contribute significantly to global growth in the third quarter of 2014, despite moderation in real GDP growth. Real GDP growth

in Russia slowed in the third quarter of 2014, while it increased marginally in South Africa.

2. Looking ahead, the IMF slightly revised downward its global growth projections for 2014 and 2015. The growth projections were reduced by 0.1 percent and 0.2 percent to 3.3 percent and 3.8 percent, respectively. This reflects setbacks in economic activity for the Euro Area and Japanese economies during the first half of 2014 and a less optimistic outlook for emerging market economies, particularly Russia and Brazil.

3. Monetary policy stances in advanced and some emerging market economies continued to support growth, although the monetary expansion program in the US came to a halt in October 2014. Monetary policies, however, were divergent in emerging market economies during October/November 2014. In this regard, the Central Banks in Brazil and Russia increased their policy rates to contain inflationary pressures caused by exchange rate depreciations, while the South African Reserve Bank left its Repo rate steady during the November meeting.

Domestic growth developments continue to be encouraging during the first ten months of 2014 and beyond, accompanied by declining inflation. Risks however remain, including low commodity prices and widening trade balance, partly driven by imported unproductive luxury goods, financed by strong growth in household credit.

4. Available data show that the domestic economy improved during the first ten months of 2014, driven mainly by construction, wholesale and retail trade, diamond mining and manufacturing. In contrast, activities in the uranium and zinc industries performed poorly.

5. Going forward, the domestic economy is expected to improve, compared to 2013. Real GDP is estimated at 5.3 percent and 5.6 percent in 2014 and 2015, respectively. The expected growth is largely driven by construction and wholesale and retail trade. The risk to growth remains the low international

commodity prices, due to depressed demand, which could impact negatively on export earnings, mining profits and employment.

6. Inflation outlook has improved recently due to a substantial decline in fuel prices. Inflation rose steadily from 4.9 percent in January 2014 to 6.1 percent in June, before dropping to 5.0 percent in October 2014. The slowdown since July was reflected mainly in food, transport and housing categories. The overall annual inflation rate is expected to average around 5.4 percent for 2014.

7. Credit to the private sector continued to grow strongly during the first ten months of 2014, driven by both businesses and households. Credit expanded by an average rate of 15.6 percent, compared to 15.0 percent during the corresponding period of 2013. Of concern are high growth rates in certain categories of credit to households, such as overdraft and installment credits, which grew on average by 25.2 percent and 19.1 percent over the last three months, respectively. Although the growth rate in instalment credit remains high, it moderated in the recent months.

8. During the third quarter of 2014, the trade deficit widened further as a result of the higher import bill. These imports consisted mainly of capital goods, 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. Despite this pressure, the international reserves remain sufficient to meet the country's foreign obligations.

Monetary Policy Meeting

9. On the 11th December 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 21st of October 2014, and the decision was taken to leave the Repo rate unchanged at 6.0 percent. The decision was taken to support domestic economic activities, while monitoring the effects of recent monetary policy decisions. The next meeting of the MPC will be held on the 17th February 2015.

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