

Date: 14 August 2019
Attention: News Editor
Ref: 9/6/2

FOR IMMEDIATE RELEASE

REPO RATE REDUCED TO 6.50 PERCENT

The Monetary Policy Committee (MPC) of the Bank of Namibia cut the Repo rate by 25 basis point to 6.50 percent. The MPC took the decision in order to support domestic economic activity and to maintain the one-to-one link between the Namibia Dollar and the South African Rand.

RECENT ECONOMIC DEVELOPMENTS

Global economic activity weakened during the first half of 2019. Inflation rates in most monitored Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs) slowed in recent months. Monetary policy stances in several key monitored economies eased.

1. Global economic growth continued to moderate during the first quarter of 2019, mainly due to lower growth observed in the EMDEs. Going forward, growth in the global economy is projected to slow down further to 3.2 percent in 2019, from 3.6 percent in 2018, as reflected in weaker leading economic indicators.
2. Most AEs recorded improved growth rates during the first quarter of 2019, compared to the previous quarter. This growth was mainly driven by the United States (US), United Kingdom (UK) and Japan, while the growth rate for the Euro area remained the same. Going forward, the AEs growth rate is projected to weaken to 1.9 percent for 2019 compared to 2.2 percent recorded in 2018. On the contrary, economic growth in most of the monitored EMDEs moderated during the first quarter of 2019, except for China whose growth rate remained unchanged from the previous quarter. GDP growth for the EMDEs is projected to continue moderating to 4.1 percent in 2019 from 4.5 percent in 2018.



3. Key risks to the global outlook remain, amongst others, escalating trade and geopolitical tensions and higher policy uncertainty across many countries, including Brexit.
4. Inflation rates were broadly unchanged in the AEs in June 2019, except in the US where it declined. Among the EMDEs, inflation also remained well contained over this period.
5. Following the above developments, several central banks in the AEs and EMDEs cut their policy rates, since the previous MPC meeting in June 2019. These include the US, Brazil, Russia, India and South Africa. Some others, such as the European Central Bank, left their policy rates unchanged.

Domestic economic activity slowed during the first six months of 2019. The inflation rate declined, while the Private Sector Credit Extension (PSCE) growth rose slightly during the first six months of 2019. The stock of international reserves remained sufficient to support the currency peg.

6. Domestic economic activity continued to slow during the first six months of 2019, compared to the corresponding period of 2018. The slowdown was reflected in sectors such as mining, construction, electricity and wholesale and retail trade. Other sectors, such as manufacturing, transport and communication, improved during the same period. Going forward, the domestic economy is projected to remain weak in 2019.
7. The average inflation rate declined to 4.4 percent during the first six months of 2019 from its highest level of 5.6 percent observed in November 2018. The moderation was mainly due to a decline in housing inflation. On a monthly basis, inflation declined to 3.9 percent in June 2019, from 4.1 percent reported in May 2019. Overall inflation is projected to average 4.3 percent in 2019.
8. Annual average growth in PSCE increased to 6.9 percent during the first six months of 2019, compared to 5.9 percent in the corresponding period of 2018. The increase in PSCE was mainly due to higher uptake of credit by businesses in the retail, real estate, financial and mining sectors. On the other hand, growth in credit extended to individuals slowed somewhat during the first six months of 2019 compared to the same

Contact:

Department of Strategic Communications and Financial Sector Development
Bank of Namibia, Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na

71 Robert Mugabe Ave, P.O. Box 2882, Windhoek, Namibia, Tel: +264-61-283 5114, Fax: +264-61-283 5254, www.bon.com.na



period in 2018. Since the previous MPC meeting, the annual growth in PSCE increased to 7.8 percent at the end of June 2019, from 7.0 percent reported in the previous MPC statement.

9. As at the 31st of July 2019, the stock of international reserves stood at N\$35.2 billion, compared to N\$34.1 billion reported in the previous MPC statement. This amount of international reserves is estimated to cover 4.8 months of imports of goods and services. At this level, the reserves are sufficient to protect the peg of the Namibia Dollar to the South African Rand and meet the country's international financial obligations.

Loan-To-Value (LTV) ratios adjusted after thorough assessment. New ratios to come into force after gazetting of revised *Regulations relating to restrictions on loan-to-value ratios: Banking Institutions Act, 1998* by Minister of Finance.

10. The Bank of Namibia implemented a macroprudential tool (regulations designed to prevent the financial institutions from taking risks that could threaten the financial system as a whole) in the form of maximum LTV ratios in 2017, in order to mitigate the impact of an overheating housing market on the financial system. Since the implementation, there have been some developments in the economy that warranted a review of this policy. These developments include a significant slowdown in the economy and sharp correction in the housing market. Accordingly, the Bank of Namibia at its Monetary Policy Committee meeting at the end of 2018, decided to review the LTV ratios. As a result of this assessment, the Bank together with the Ministry of Finance has come to an agreement to revise the LTV ratios to the following:

	Current Maximum LTV %	New maximum LTV %
Primary home	Not applicable	Not applicable
Non-primary residences:		
Number 1	80 %	90%
Number 2	70 %	80%
Number 3	60 %	80%
Number 4 & further	50 %	80%

Contact:

Department of Strategic Communications and Financial Sector Development
Bank of Namibia, Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na

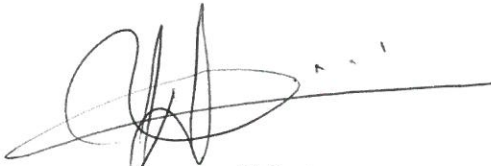
71 Robert Mugabe Ave, P.O. Box 2882, Windhoek, Namibia, Tel: + 264-61-283 5114, Fax: +264-61-283 5254, www.bon.com.na

29

11. These new ratios will come into force after the gazetting of the revised *Regulations relating to restrictions on loan-to-value ratios: Banking Institutions Act, 1998* by the Minister of Finance. At these adjusted levels, the Bank believes that LTVs will continue to shield the financial system from undue risks going forward.

Monetary Policy Stance

12. On the 13th of August 2019, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting and decided to cut the Repo rate to 6.50 percent. This decision was taken following a review of global, regional and domestic economic and financial developments. The next meeting of the MPC will be held on the 22nd of October 2019.



Yipumbu Shiimi

GOVERNOR

Contact:

Department of Strategic Communications and Financial Sector Development
Bank of Namibia, Tel: (061) 283 5114, Fax: (061) 283 5546 or email: info@bon.com.na

71 Robert Mugabe Ave, P.O. Box 2882, Windhoek, Namibia, Tel: +264-61-283 5114, Fax: +264-61-283 5254, www.bon.com.na