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**REPORT ON THE IMPACT OF INTEREST RATES ON THE NAMIBIA  
ECONOMY  
31 OCTOBER 2007 – NAMPOWER CONVENTION CENTRE, WINDHOEK**

**INTRODUCTION AND BACKGROUND**

Due to global rising inflation, the Namibia economy has experienced rising interest rates which has negatively affected Namibian consumers. The Bank of Namibia, as a financial institution which plays a role of stabilizing the economy responds to changes within the market by applying the appropriate monetary policy. Taking the situation of increased bank rate by South Africa Reserve Bank, the Bank of Namibia is influenced to make decisions to increase/decrease the repo rate and as a result the Commercial Banks in Namibia respond the same by increasing/decreasing interest rates.

It is against this brief background that the Namibia Economic Society held the roundtable meeting to educate the public, share, discuss views and concerns about the impact of interest rates on the Namibian economy.

**SUMMARY OF SPEECHES DELIVERED BY PRESENTERS**

Bank of Namibia Director of Research Dr. John Steytler, who spoke on behalf of the Bank Governor, Mr. Tom Alweendo said that there is no need for Namibia to reconsider its participation in the CMA but rather participate in deeper integration both in the association and SADC.

The interest rate agreement has worked well considering the relatively low inflation rate experienced so far. The CMA was an arrangement meant to support the fixed exchange rate system between the Namibia dollar and the South African rand. The monetary policy could assist in creating a conducive environment for sustainable growth and development but could not control interest or unemployment rates.

According to Dr. Steytler if consumers consider the interest rates to be high, they are forced to re-arrange their repayment schedule with their banker or even sell their assets.

In addition, when disposable income shrinks, it leaves people with less money to spend on consumer goods.

The Secretary General of the National Union of Namibian Workers, Mr. Evilastus Kaaronda said although one of the objectives of the monetary policy was to assist in attaining national economic goals, the bank was treating inflation as if it were the country's only macro economic challenge, yet Namibia has high unemployment, underemployment, widespread poverty and acute inequalities. These problems according to the worker representatives are likely economic structural problems which must be addressed urgently, but cannot be resolved through interest rates or any such parochially defined macro-economic policy interventions. When interest rate increases it does not only make it difficult for businesses to raise capital and create new jobs but could also lead to the collapse of some businesses and increase retrenchments and wage suppression.

The Keynote Speaker, Hon. Kuugongelwa, the Minister of Finance said that the central bank would not adjust the rate to levels that would be detrimental to the economy. Although interest rate hikes increase the cost of borrowing and debt servicing, and put pressure on Government expenditure, the bank applied its mind fully. She warned that artificially low inflation rates in Namibia would force managers of capital to move their money elsewhere where the interest rates are high.

Dr. Eita, Reseacher from NEPRU gave an introduction, background and the impact of interest rates on the Namibia economy. To combat inflation the monetary authorities in the past applied money growth targeting. Nowadays, they use inflation targeting.

According to him there will always be a concern in interest rates because when interest rates increases it discourages borrowing. Rising interest rates reduces consumption and as a result the demand for wages increases.

Rising interest rates also affect investment negatively. This also has an impact on exports through the exchange rate.

## **DISCUSSIONS FROM THE FLOOR**

Concerns from participants were about whether Namibia has a policy to target inflation. Inflation is a problem for Namibia, limiting capital outflow and how an increase in interest rates benefits the poor.

Responding on the matter, was Dr. Steytler who said that the monetary policy could not control inflation or unemployment rates but could manage and assist in creating a conducive environment for sustainable economic growth and development. Furthermore he said that the Bank of Namibia represents the interest of consumers by protecting their real disposable income. When the monetary policy stabilizes prices it does not just protect the rich but also the poor.

Apart from ensuring a stable economy, the Bank of Namibia is also playing a crucial role by contributing towards Vision 2030. Therefore a study was conducted to achieve the targets of Vision 2030.

Responding on the issue on how to prevent capital outflow by investors, Dr. Heita responded that the Namibia currency must be competitive. Exports must respond to depreciation of the currency. When interest rates increases it does not have to be equivalent to the rate of South Africa.

There was a concern on whether the National Budget is responsive to the needs of Namibians. Hon. Kuugongelwa responded by saying that consultations are done at various levels and that there is an influence by representatives of members of the public on how money will be spent. In response to practicing good governance in terms of transparency the Minister said that the National Budget is accessible to the public.

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