

Statement of the Monetary Policy Management Committee (MMC)

1. Introduction

The MMC, at its meeting held on 12th April 2006, decided to leave the Bank rate unchanged at 7.00 percent, after a close review of the current domestic and international economic developments.

2. Developments in the real sector

In spite of a slowdown observed in global economic activities during the fourth quarter of 2005, the Gross Domestic Product (GDP) of Namibia recovered remarkably during the period. The GDP rose to 4.1 percent during the last quarter of 2005, stronger than a zero growth registered at the same time in 2004 and a contraction of 2.1 percent recorded during the third quarter of 2005. Attributable for a turnaround in GDP is the good performance of sectors such as mining and quarrying and wholesale and retail trade. The growth of agriculture, electricity and water, transport and communication sectors as well as the producers of government services slowed down, but maintained positive rates. The developments in the fishing and manufacturing sectors, however, continued to be poor as have been witnessed for most part of 2005.

3. Developments in inflation

The rise in the annual inflation observed since the third quarter of 2005 continued during the first two months of 2006. The annual inflation rose from an average of 3.2 percent during the fourth quarter of 2005 to 3.6 percent and 3.7 percent in January and February 2006, respectively. The average inflation of the first two months in 2006 was also higher at 3.7 percent than the average of 2.6 percent registered at the same time in 2005. The increase in inflation during January and February was driven by the increases in the inflation of alcoholic beverages and tobacco of 8.0 percent,

housing water electricity, gas and other fuels of 2.7 percent and that of education of 7.3 percent. The corresponding figures for 2005 stood at 7.0 percent, 2.2 percent and 3.9 percent, respectively. Despite the buildup of inflationary pressures since September 2005, the secondary (or second round) effects on inflation due to the rising oil price have not come to bear as the increase in consumer prices in Namibia has remained at historically low levels.

South Africa's CPIX inflation continued to be higher than the Namibian inflation (NCPI). The CPIX also followed the same upward movements noted for the NCPI during the first two months of 2006, rising by 4.3 percent and 4.5 percent, respectively, during January and February from a quarterly average of 4.0 percent during the fourth quarter of 2005. One of the reasons behind the increase in the CPIX was a rise in fuel prices at the beginning of 2006.

4. Exchange Rates

The Namibia Dollar remained fairly stable between December 2005 and March 2006 as measured against the Euro, US Dollar and the British Pound Sterling. The local currency depreciated against the Euro by 0.7 percent, while it appreciated by 1.4 percent and 0.3 percent against the US Dollar and Pound, respectively.

5. Money Supply

On the year-on-year basis, the monetary developments showed a slowdown of 11.6 percent in the growth of M2 during February 2006, in comparison to 13.5 percent in January. This rate of growth is, however, higher than the expansion of 9.7 percent realized during December 2005. The average growth in M2 for the first 2 months of the year stood at 12.5 percent, slightly higher than 12.4 percent recorded in 2005. The growth of M2 has been on account of robust growth in credit extension to the private sector. Despite these developments, the level of growth in money supply is currently not a cause of concern, as the high demand for credit has not shown a direct impact on consumer prices.

6. Credit extension by Commercial Banks to private sector

The credit extension to the private sector remained strong during February 2006, rising by 20.1 percent, year-on-year, from 17.8 percent in January of the same year. The average growth for the first two months of 2006 stood at 19.2 percent, relatively lower than 19.7 percent experienced during same period of 2005. It is encouraging to note that growth in credit extension to businesses increased significantly to 15.5 percent by the end of February 2006 from a low of 9.5 percent in January 2006. Most of the credit granted to the business category, was mainly extended to the mining and quarrying sector, which drove the recovery of the Namibian economy during the fourth quarter of 2005. Similarly, over the same period, credit extension to individuals rose slightly to 25.9 percent from 23.9 percent. Mortgage financing drives most of the credit to individuals.

7. Exogenous factors

International crude oil prices started to rise again due to geopolitical concerns, especially in Iran, reaching US\$66 per barrel in April 2006 from US\$58 in February. This remains the main risk factor to future inflation outlook. If crude oil prices continue to rise, it may upset good inflation prospects for the future.

8. Monetary Policy Stance

Notwithstanding the upside risk posed by the volatility of oil prices and other administered prices in the economy, the inflation rate for Namibia remained at acceptable levels. The strength of the Namibia Dollar and lower prices of crops as a result of good rainfall would help to tame inflationary pressures. Money supply has remained moderate over the past few months and is not a cause for concern. Although private sector credit extension remained strong, this is not alarming since a bigger share is extended to the buoyant property market and the mining sector, which made a significant contribution to the recovery of the economy during the fourth quarter of 2005. Additionally, the strong demand for credit does not appear to have fuelled imports as the trade deficit has fallen in the fourth quarter of 2005, partly contributing to the overall balance of payments surplus recorded during that period.

Having considered the above developments, the Bank of Namibia has therefore decided to leave the Bank rate unchanged at 7.00 percent. The Bank will continue to monitor domestic and international economic developments and will make the necessary adjustment in the Bank rate when deemed appropriate to achieve the objective of price stability in the country.

Tom K. Alweendo

Governor

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