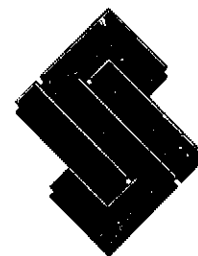


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Office of the Governor

Ref. 9/6/2

20 May 2009

PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

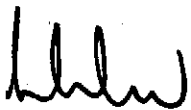
1. The Executive Committee (EC) of the Bank of Namibia held its ordinary meeting on the 19th May 2009 to, amongst others, deliberate on monetary policy matters.
2. Since the last meeting of the EC in April, most global economic indicators remained more or less unchanged. Activity in most advanced and emerging market economies continues to be depressing, as reflected in sharp contractions in industrial output and a persistent increase in unemployment levels in these economies. However, since the last EC meeting, there have also been encouraging signs that commodity markets have further stabilized with moderate increases observed in some commodity prices. This was also supported by a renewed rally in financial markets during the month of April. Nevertheless, in line with weak global economic activity, commodity and financial markets generally remain depressed.
3. Regarding the domestic economy, the annual rate of inflation decelerated quite significantly to 10.0 percent in April 2009 from 11.2 percent in March 2009. The slowdown mainly reflected a sharp deceleration in food prices from 15.7 percent in March 2009 to 13.0 percent in April, implying that declining international cereal and other commodity prices might have eased the price pressures on domestic food prices as expected. Transport inflation, the other key driver of overall inflation, also moderated further to 7.1 percent in April

from 7.6 percent in March. Nevertheless, with the recent increases in the pump prices of petrol and diesel, this development might be slightly reversed going forward. Overall, however, the EC expects that, in the medium term, inflation should continue its downward trajectory mainly on account of a continuously slowing world economy as well as fairly depressed domestic demand conditions.

4. Other domestic demand indicators, such as credit extended to the private sector, vehicles sales, transport and construction activities, showed mixed results since the last EC meeting. The annual growth in credit extended to the private sector slightly increased to 10.3 percent in March 2009 compared to 9.9 percent in February. The rise was mainly reflected in growth of credit to individuals, which increased to 10.0 percent from 8.1 percent in February, while growth in credit extended to the business sector slowed to 10.7 percent from 13.3 percent in February 2009. The expansion of collateralized credit, which is dominated by mortgage and instalment credit, slightly increased to 10.8 percent in March from 10.4 percent in February. On an annual basis, total new vehicles sold rose by 19.2 percent during the month of March.
5. Supported by the decline in the annual inflation rate, the EC remains confident about the appropriateness of the currency peg as a nominal anchor for price expectations. Moreover, there has been a further improvement in liquidity conditions in the banking system, with the magnitude of capital outflow through the banking system posing no undue threat to the sustenance of the currency peg. In addition, international reserves improved significantly to N\$15.9 billion at the end of April 2009, from N\$14.4 billion in March, which is regarded as more than sufficient to support the currency peg.
6. Taking into consideration both the international and domestic economic conditions, the EC is of the view that a further measure of monetary policy easing is justified to support the local economy. Against this background, it was decided to reduce the Repo Rate by 50 basis points to 7.5 per cent with effect from 22 May 2009. In the past, the EC has expressed its concern about

the magnitude of the spread between the Repo Rate and the prime lending rates of commercial banks. The Bank, therefore, expects that the commercial banks will use this opportunity to reduce the spread between the Repo Rate and their prime lending rates.

7. We are experiencing unusual and uncertain economic times where, due to exogenous factors, economic conditions change rapidly. The Bank will, therefore, continue to monitor domestic and international economic developments with a view to adjust monetary policy when necessary.



Tom K. Alweendo
GOVERNOR