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Media statement**Monetary Policy statement by the Bank of Namibia**

1. The Monetary Policy Committee (MPC) of the Bank of Namibia held its monetary policy meeting on the 19th of June 2012 to deliberate on the monetary policy stance for the next two months. The Committee reviewed the global and domestic economic developments since the last meeting held on the 24th of April 2012.

Global economy

2. Since the previous MPC meeting, fragility continues to shadow the global economy despite mild improvements in the US and Japanese economies during the first quarter of 2012. In this regard, growth in the US economy increased from 1.6 percent during the fourth quarter of 2011 to 2.1 percent in the first quarter of 2012 largely due to slightly improved consumer spending. Similarly, growth in Japan improved from a decline of 0.5 percent to a growth of 2.7 percent due to the interventions aimed at resuscitating the economy following the tsunami disaster.
3. Meanwhile, the fiscal debt crisis in the Euro Area continues to intensify, thereby reinforcing the slowdown in economic activities in the region. Consequently, the Euro Area recorded zero percent real GDP growth in the first quarter of 2012 from a growth of 0.7 percent in the previous quarter. This is largely attributable to weak manufacturing activities as well as sluggish household expenditure. During the same period, real GDP growth in the UK contracted to 0.1 percent in the first three months of 2012 from a growth of 0.4 percent in the fourth quarter of 2011. This was mainly on account of a contraction in the construction and manufacturing sectors, compounded by restrained performance of the agricultural, services and mining sectors.
4. With the exception of Russia, data from the emerging market economies showed a continued slowdown in output growth, although the growth magnitude remains healthier in

comparison to that of the developed economies. In this respect, growth in China, India, and South Africa slowed during the first quarter to 8.1 percent, 5.3 percent and 2.1 percent, respectively. The slowdown in the Chinese economy is attributed to weaker external demand, especially from the Euro Area; while in India the moderation mirrors weak investment performance due to relatively high interest rates. For South Africa, the feeble growth reflects a contraction in the mining sector owing to the prolonged strike in the platinum industry. In contrast, Russia's real GDP growth increased mildly to 4.9 percent in the first quarter of 2012 from 4.8 percent due to an increase in government spending, which bolstered domestic consumption.

5. Since the last MPC meeting, Central Banks of industrialised economies continued to pursue accommodative monetary policy stances to propel economic activities. Given the limited scope due to low level or near zero policy rates, most central banks maintained their policy rates unchanged during the remainder of April and in May 2012. On the contrary, emerging market economies such as China, India and Brazil eased their monetary policy stances to shield their economies from the deteriorating global outlook.
6. Meanwhile, financial markets continue to be fragile, as the risks of contagion from the Euro crisis to the wider global economy intensify. The downside risks to the global economic prospects going forward remain those of high unemployment rates, high sovereign debt, weak consumption expenditure and slow demand in some key regions.

The domestic economy

7. As noted during the previous meeting, real sector indicators underscored that the domestic economy continues to fare positively amidst downside risks imparted by heightened global uncertainties. In this context, the performance of the domestic economy year-to-date continued to be moderate, as reflected by positive outturn across the primary, secondary and tertiary industries. Increased growth was particularly pronounced in the mining and construction sectors. Similarly, mineral export earnings were relatively strong in contrast to

the first four/five months of the preceding year. Meanwhile, lacklustre performance was observed in the agriculture, manufacturing and tourism sectors.

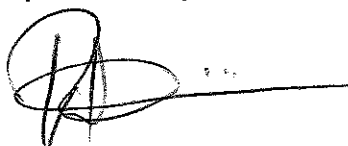
8. Since the last MPC meeting, the annual inflation rate eased to 6.4 percent in April 2012 before falling further to 6.0 percent in May 2012. The moderation can be attributed to slowed inflation rates in the categories of *miscellaneous goods & services*; *furnishings*; and *food & non-alcoholic beverages*, amongst others. The domestic inflation outlook continues to be influenced by developments in the exchange rate, international oil prices as well as uncertainties in the global economy. At this stage, the MPC is of the view that risks to inflation are rather moderate and the inflation outlook appears stable over the medium term.
9. Credit extension to the private sector accelerated at the end of April 2012, recording an annual growth rate of 13.2 percent, the highest annual growth rate since December 2007. This was underscored by improved bank lending in the categories of mortgage loans to households, overdraft lending to the corporate sector as well as other loans and advances to both sectors. Taking a closer look into the loan categories, the MPC noted with concern the increased borrowing by the household sector towards less productive activities. These include instalment credit which registered an annual growth rate of 22.0 percent at the end of April 2012. This expansion ties in with the trend observed in vehicle sales which gained 26.9 percent over the same period. Further, lending towards personal loans and credit cards are also on the increase, recording an annual growth rate of 13.9 percent. Similarly, household overdrafts registered an annual growth of 14.4 percent at the end of April 2012. The MPC cautions that although less productive credit constitutes a relatively small portion of total lending, households should minimize this kind of borrowing to avoid crowding out funding towards productive investments. Moreover, this development viewed together with Namibia's saving rate which has been declining over the past few years, is a cause for concern. Notwithstanding this concern, the MPC noted that there are currently no indications of distress in the banking sector as non-performing loans remain low. The MPC will,

nonetheless, continue to monitor developments with respect to credit growth going forward and where necessary take appropriate measures.

10. Developments in the fiscal sector are largely in coherence with the prevailing expansionary fiscal policy. In this context, the Central Government debt stock in the first quarter of 2012 increased to N\$24.7 billion, that is, 26.8 percent of GDP. The government domestic debt, however, fell slightly by 1.3 percent at the end of May 2012, but remained static at 17.6 percent as a percentage of GDP. Since the last MPC meeting, the stock of foreign reserves fell to N\$13.9 billion at the end of May 2012. This decline stemmed from financing Rand transactions coupled with government foreign payments. The MPC remains confident that the level of international reserves is adequate to sustain the fixed currency peg of the Namibia Dollar to the South African Rand.

Monetary Policy Stance

11. Considering the aforementioned economic developments, the MPC is of the view that the global prospects continue to be gloomy. Although the domestic economy continues to show positive growth in contrast, the trade and financial linkages dictate that the balance of risks remains tilted on the downside. The MPC further noted the abating inflationary pressures in the domestic economy and is of the view that the inflation rate will remain stable over the medium term. Against this background, the MPC decided to keep the Repo Rate unchanged at 6.00 percent, with a view to keep supporting economic activities.
12. In conclusion, the MPC noted that due to external developments, economic conditions can change rapidly. In light of this, the MPC will continue to vigilantly monitor economic developments with a view to make the necessary adjustments in the interest of safeguarding price stability necessary for economic growth in the context of the fixed currency peg.



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