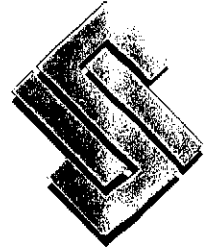


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Ref. 9/6/2

15 December 2010

Media statement**MONETARY POLICY STATEMENT ISSUED BY THE BANK OF NAMIBIA**

1. The Executive Committee (EC) of the Bank of Namibia met on 14 December 2010 to consider its monetary policy stance for the two months ahead. The Committee reflected and deliberated on developments in the global and domestic economy since the last meeting held on 19 October 2010.

The global economy

2. The global economy continued with the steady recovery, as noted at the last EC meeting held in October 2010. However, the rate of this recovery remains uneven across the globe and seems to lose its momentum when compared to the first half of the year. In this connection, the third quarter data for 2010, which EC reviewed, showed that the global recovery continues to be mainly driven by strong growth in the emerging economies and to a lesser extent by advanced economies.
3. Leading the recovery in the advanced economy was Japan followed by the US. Japan grew by 3.9 percent during the third quarter of 2010 up from 2.4 percent during the preceding quarter, while the US GDP expanded by 3.1 percent during the third quarter slightly below 3.2 percent reported a quarter earlier. A moderate recovery was also observed in the UK, where GDP was reported to have expanded by 2.8 percent during the third quarter of 2010 from 1.7 percent in the previous quarter. In the Euro zone, the GDP growth rate remained unchanged at 1.9 percent during the second and third quarter of 2010.
4. Although growth in the emerging economies generally remains the main driving force of the steady global recovery, third quarter data for 2010 suggests that the speed of recovery in these economies has also subsided. Apart from India, which reported a robust growth of 8.9 percent during the third quarter compared to 8.8 percent in the preceding quarter, growth in all other major emerging economies slowed down during the third quarter. The Chinese economy, although remaining in the lead, slowed down from 10.3 percent in the second quarter to 9.6 percent in

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the third quarter of 2010. The economies of Russia and South Africa also moderated to 2.7 percent and 2.6 percent in the third quarter of 2010, from 5.2 percent and 3.1 percent, respectively, in the in the preceding quarter.

5. Global monetary policy remains expansionary, particularly in advanced economies, with the view to support the fragile demand in these economies. While the US maintained the same policy rate, Australia and Japan increased their policy rates by 0.25 percent and 0.002 percent, respectively. Among emerging economies, the majority of countries, apart from South Africa, raised their rates to counter the impending inflationary pressures. In the case of India and China, the risks of a property price bubble and the threat of inflation became visible.
6. Going forward, there are visible downside risks to the sustainability of the global recovery. These include the high unemployment rate, lack of credible medium-term fiscal consolidation plans and the spill over effect of the Euro debt crisis.

The domestic economy

7. The domestic economy continues to record positive performance during the third quarter. However, the outlook remains subdued as data continue to point towards the weaker growth prospects going forward. Notable positive developments were reported in the primary and secondary industries during the review period.
8. The mining sector was the largest contributor to the robust performance witnessed in the primary industry, followed by the agriculture sector. The growth in the mining sector was displayed in the increased output of most minerals on an annual basis, including diamonds, gold and zinc concentrates. Agriculture also performed relatively well, particularly in terms of the volume of milk produced. However, most of the indicators were pointing downwards on a month-on-month basis.
9. The manufacturing sector, particularly the processing of mining products, performed well since the last EC meeting. The production of refined zinc and blister copper rose on a monthly as well as on a yearly basis.
10. With regards to price developments, inflationary pressures remained subdued, falling to 3.2 percent in October 2010 from 3.7 percent in September. The decrease was mainly on account of lower inflation rates in categories, such as food and non-alcoholic beverages; alcoholic beverages and tobacco; clothing and footwear; furnishings, household equipment and routine maintenance; health; communication and miscellaneous goods and services.
11. The recovery in the household consumption expenditure remains weak as real wholesale and retail turnover declined month-on-month. Real wholesale and retail

turnover declined by 3.6 percent in October 2010 compared to the preceding month. The decline was reflected in the low furniture and vehicle sales, as well as supermarket sales. This trend is expected to improve somewhat during the approaching holiday and festive season.

12. EC noted that the steady recovery in the domestic demand as reflected in developments in credit extension. Annual growth in private sector credit extension increased to 10.4 percent at the end of October 2010 from 9.6 percent at the end of September 2010. The improved growth in domestic demand was reflected in the rise in credit advanced to both individuals and businesses.
13. Fiscal operations, in terms of the ratio of domestic debt to GDP, remained stable and hence supportive of the monetary policy. Domestic debt as a ratio to GDP rose slightly to 10.5 percent at the end of November from 10.4 percent at the end of October 2010. The rise in domestic debt was in the form of Internal Registered Stocks, which increased due to the issuance of a new GC21 bond. Furthermore, EC noted that total foreign currency reserves decreased by 12.2 percent to N\$10.2 billion at the end of November 2010, but at this level it remained sufficient to support the currency peg.

Monetary policy stance

14. EC noted that while the global economic recovery proceeds, it has started to slow down due to combinations of factors, including the fading out of the impact of the supportive measures and lack of fiscal consolidation in the Euro area. Although the domestic economy is expected to continue growing, as reflected in the improved demand indicators, EC noted that there are still visible and persisting downside risks that could negatively affect the pace of recovery in the near future.
15. Taking into consideration the above factors, the EC is of the view that a further round of monetary easing is justified to mitigate the weaknesses in the real sector and boost growth on the demand side. The subdued inflationary environment for the short to medium term further provided space for monetary easing. In this regard, the EC has decided to reduce the Repo rate by 75 basis points from 6.75 percent to 6.00 percent with effect from 16 December 2010. The Bank will continue to monitor international and domestic developments and will take appropriate policy action if required.



Ipumbu Shiimi
GOVERNOR