

## PRESS STATEMENT

### Monetary Policy Statement by the Bank of Namibia

#### Introduction

1. The Bank of Namibia held its monetary policy meeting on the 05<sup>th</sup> of December 2007 to consider its monetary policy stance to be pursued over the next two months. The meeting evaluated domestic and international economic developments, as well as the inflation forecasts. In this connection, the Bank noted that the Namibian economy continued to perform satisfactorily, supported by robust growth in the world economy and higher commodity prices. Growth in credit extension to the private sector remains high, but the rate of increase is slowing down, which may indicate that private sector credit demand may be responding to the tightened monetary policy.
2. Inflation has continued its downward trend, easing since August 2007, although it still remains a reason for concern. The moderation in inflation during October 2007 is mainly attributed to declines in transport, furnishing and household equipment prices. Food inflation, on the other hand, continued to put an upward pressure on the overall inflation. It is, however, encouraging that even when transport and food inflation are excluded from the consumer price index, the remaining inflation components continue to show a downward trend since August 2007. Notwithstanding these positive developments,

volatilities in the international crude oil prices and uncertainties regarding the food price outlook continue to pose a major risk to the inflation outlook.

### **Developments in the Real Sector**

3. On balance, economic activity in the global economy remains favourable, despite turbulences in the financial markets triggered by the turmoil in the US subprime mortgage sector. The relatively strong growth could mainly be attributed to strong economic expansion in the emerging market economies, particularly China, India and Russia, which accounted for half of the global growth over the past year. Furthermore, robust expansion also continued in other emerging markets and developing economies, including low-income countries in Africa. Commodity prices are, however, expected to moderate from the recent record high levels.
4. The performance of the South African economy continued to be robust, with real GDP growth expanding by 4.7 percent year-on-year during the third quarter of 2007. Growth is, however, projected to slow down to 4.9 percent in 2007 and further to 4.5 percent in 2008, from 5.0 percent in 2006. The expected slowdown in 2008 is mainly attributed to the impact of tighter monetary policy, as well as the expected slower growth in developed countries.
5. The Namibian economy continues to perform satisfactorily during the third quarter of 2007. Available indicators show that economic activities in the third quarter continued to grow at a similar pace since the last monetary policy meeting. There was, however, a moderation in the pace relative to the corresponding period in 2006. The unfavourable pace relative to 2006 was associated with the contraction in the tradable sector, attributed mainly to the decline in mining output due to operational breakdowns.

## **Domestic Demand**

6. Available demand indicators, such as private sector credit extension and vehicle sales, show that the growth in domestic demand continues to be subdued in response to tightened monetary conditions. Growth in private sector credit slowed significantly from 18.3 percent in October 2006 to 12.6 percent, in October 2007. The slowdown in private sector credit growth was witnessed in credit extended to both businesses and individuals.
7. At an annual rate, growth in credit extended to individuals slowed to 13.2 percent at the end of October 2007 from 19.3 percent in the corresponding month of the previous year. Similarly growth in credit extended to businesses slowed to 11.6 percent at the end of October 2007 from 16.5 percent one year earlier. It is worth noting that growth in asset-backed credit displayed a similar downward trend. For instance, growth in mortgage loans decelerated from 22.6 percent at the end of October 2006 to 17.9 percent at the end of October 2007. Similarly, growth in instalment credit decelerated to 5.3 percent at the end of October 2007 from 18.7 percent at the end of October 2006.
8. Annual growth in total vehicle sales remained almost unchanged, rising only by 0.2 percentage points to 8.6 percent in October 2007 from 8.4 percent in the corresponding month of the preceding year. Moreover notwithstanding attractive discount offers by commercial banks and car dealers, passenger vehicle sales declined significantly by 5.8 percent in October 2007 from an increase of 19.3 percent in October 2006. On the other hand, commercial vehicle sales rose by 20.1 percent from 0.2 percent over the same period.

## **Inflation Developments**

9. Since the last monetary policy meeting in October this year, inflation has continued its downward trend, although it is still high when compared with the annual average of 2006 and 2005. The national consumer price index (NCPI)

receded for three consecutive months from a peak of 7.2 recorded in July, down to 6.6 percent in October.

10. The moderation in inflation was mainly caused by the deceleration in annual transport inflation, which slowed to 4.0 percent in October from 7.2 percent in July. This was largely attributed to a deceleration in the 'operation of personal transport equipment' sub-category, which slowed from 12.5 percent in July to 9.1 percent in October 2007.
11. Food price inflation, on the other hand, continues to put pressure on the consumer price index. Food inflation increased to 13.5 percent in October from 13.4 percent in July 2007. The overall increase in food prices could mainly be attributed to a confluence of three inter-related factors, namely general strong demand in emerging markets economies such as India and China, regional drought spells and the conversion of crops into bio-fuels, as an alternative energy source. Of these three factors, the latter one is expected to persist as long as international oil prices remain high as it is more attractive for farmers to cultivate crops such as maize and wheat for the production of bio-fuel. This, in turn, has also put pressure on the availability of land for production of other food crops for human consumption.
12. Looking ahead, the balance of risks to the inflation outlook remains slightly tilted to the upside. The South African Producer Price Index (PPI), a leading indicator for consumer price inflation both in South Africa and in Namibia, accelerated to 9.5 percent in October from 9.4 percent in September 2007. Moreover, international oil prices remain persistently high, with crude oil prices reaching record highs of close to US\$100 per barrel in October and November. Domestically, pump prices have not been adjusted since July this year, thus a significant adjustment before the end of the year could not be ruled out.

## **Monetary Policy Stance**

13. Going forward, local domestic demand conditions have continued to moderate, thus the risks to inflation from these components have continued to decline. Inflation also seems to have moderated, although the upside risks that originate from the surge in crude oil prices into a trading range significantly above historical levels and its potential pass-through to domestic prices still remains. In addition, the risks of increasing food prices due to the rise in the demand for bio-fuels and drought also remain tilted to the upside.
  
14. On balance, however, it appears as if an increase in the Bank rate at this stage could run the risk of unduly depressing domestic demand, which may hinder real sector growth. The Bank has taken a policy decision that its rate could deviate from the South African Repo rate to some extent, without disrupting capital flows in the context of the CMA arrangement. In light of these developments, the Bank of Namibia decided to leave the Bank rate unchanged at 10.5 percent per annum, for now. However, I certainly expect commercial banks not to increase their prime lending rates and to reduce the already unwarranted high spread between the Namibian and South African prime lending rates.
  
15. As usual, the Bank of Namibia will continue to closely monitor price developments and factors that induce price changes, and will adjust its policy stance should monetary conditions so demand in the interest of price stability.

Tom K. Alweendo  
**Governor**