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## **Monetary Policy Statement by the Bank of Namibia**

### **A. Introduction**

After a thorough review of both domestic and international economic developments, the Monetary Policy Management Committee of the Bank of Namibia at its meeting held today, has retained the Bank rate unchanged at 7.00 percent.

### **B. Developments in the real sector**

The Namibian economy experienced a slowdown in economic activities during the second quarter of 2005 registering a growth rate of 1.1 percent from a 2.4 percent observed during the corresponding period of 2004 and 4.1 percent in the first quarter of 2005. The slowdown in economic growth was reflected in almost all the sectors with the exception of the manufacturing, construction, wholesale and retail trade and repairs sectors.

On the other hand, the main real sector indicators such as the number of livestock marketed production of base and precious metals for the first two months of the third quarter of 2005 show that economic activity improved relative to the corresponding period of 2004. On the contrary, diamond production decreased by 34.1 percent over the same period. The ratio of non-performing loans to the total loan portfolio of commercial banks remained favourable, on account of the accommodative monetary policy stance. This could signal an improvement in real economic activities. However, there is still uncertainty about GDP growth in the third quarter as the full picture is not known yet.

### **C. Developments in inflation**

Namibia's annual inflation increased to 2.2 percent in August from 1.7 percent in July and 1.3 percent in June, respectively. Despite this latest increasing trend, inflation still remains lower, compared to an annual rate of 2.6 percent in February 2005, which is thus far the highest rate recorded in 2005. Furthermore, the average annual inflation rate for the first eight months of 2005 is relatively lower at 1.8 percent, compared to an average of 4.2 percent recorded during the same period in 2004.

### **D. Exchange Rates**

Similar to developments in July, the Namibia Dollar continued to appreciate further against the major international currencies, reaching levels of N\$6.35 to the US Dollar, N\$11.49 to the British Pound Sterling and N\$7.79 to the Euro in September 2005. The local currency was trading at N\$6.75 against the US Dollar, N\$12.2 against the British Pound Sterling and N\$8.2 against the Euro in June 2005, respectively. The recent strengthening of the local currency could be attributed to strong commodity prices, especially for gold.

### **E. Money Supply**

Annual growth rate in broad money supply (M2) eased to 11.0 percent in August, from an annual growth rate of 18.0 percent in July 2005. The relatively slow growth in broad money supply in August 2005 can mainly be ascribed to the decline in the net foreign assets of commercial banks. On the other hand, growth in domestic claims remained constant at 20.0 percent in August and July, compared to a slightly higher growth rate of 20.9 percent registered in June, 2005. Overall, the average growth rate in M2 for the first eight months of 2005 is 11.0 percent.

### **F. Credit extension by Other Depository Institutions (commercial banks)**

Private sector credit extension stabilised at 19.0 percent (y-o-y) in July and August 2005. In June 2005, private sector credit declined slightly to 18.0 percent (y-o-y) from 18.3 percent in May and 19.0 percent (y-o-y) in April and March 2005, respectively.

For the first eight months of 2005, private sector credit extension recorded an average annual growth rate of 18.9 percent, which is slightly higher than the average of 18.7 percent at the same period of 2004. Credit extended to individuals which increased by 30.0 (y-o-y) in August from 26.0 percent in July (y-o-y), is the main factor responsible for the increase in private sector credit extension in August 2005. On the other hand, credit to businesses grew slightly by 1.0 percent (y-o-y) in August 2005 from 9.0 percent (y-o-y) in July 2005. For the first eight months of 2005, private sector credit recorded an average annual growth of 18.9 percent. This could mainly be explained by the lower interest rates.

### **G. Exogenous factors**

The price of oil soured above US\$65 per barrel in September, following hurricane Katrina, which caused significant direct damages to refineries, pipelines and ports in the Gulf of Mexico, a major oil and natural gas supply centre in the United States of America. Furthermore, prices rose above US\$65 per barrel on concerns of the possible impact of hurricane Rita. With the escape of the wrath of hurricane Rita by the main oil refinery and production facilities, oil prices started to subside. However, it is still expected that the increasing global oil demand driven mainly by China, will continue to put pressure on lower production capacity, and thus higher oil prices. Therefore, unless there are interventions in the market expected high crude oil prices are unavoidable. Current forecast indicates that oil prices will average US\$63.9 per barrel during fourth quarter of 2005.

### **H. Monetary Policy Stance**

The average annual inflation rate for Namibia during the first eight months of 2005 stood at 1.8 percent which is relatively lower than an average rate of 4.2 percent registered during the corresponding period of 2004. However, despite the fact that inflation has been lower in 2005, it has been picking up for the last three months. On the other hand, money supply eased to 11.0 percent in August, from an annual growth rate of 18.0 percent in July 2005. Private sector credit extension stabilised at 19.0 percent (y-o-y) in July and August 2005. For the first eight months of 2005, private sector credit extension recorded an average annual growth rate of 18.9 percent, which is higher than the average of 18.7 percent at the same period of

2004. This trend suggests that the source of inflation in Namibia is from external rather than domestic sources, as both money supply and private sector credit have been relatively stable.

Taking cognisance of the domestic economic developments and external factors, the Bank of Namibia (BoN) has decided to maintain the Bank rate unchanged at 7.00 percent. The Bank of Namibia's decision is intended to strike a balance between fostering sustainable growth, reducing inflation and building up of foreign exchange reserves. The Bank of Namibia, however, remains concerned about the high oil price as it can have second round effects on the already rising inflation. In this regard it 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 Namibia.

**Tom K. Alweendo**  
**Governor**

The Bank of Namibia's next review of the Bank rate position, for this year will be on 8<sup>th</sup> December, 2005.