

Bank of Namibia

71 Robert Mugabe Avenue
P.O. Box 2882, Windhoek, Namibia
Tel: +264-61-283 5130 Fax: +264-61-229874

**Office of the Governor**

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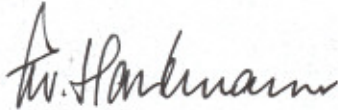
PRESS STATEMENT**Monetary Policy Statement by the Bank of Namibia**

1. The Executive Committee of the Bank of Namibia met on 17 December 2008 to formulate the monetary policy stance for the next two months.
2. Since the previous monetary policy meeting of the Executive Committee, the international financial crisis continues to intensify and spread, thus drawing the global economy into a sharper than anticipated downward trajectory. The slowdown had a particularly adverse effect on commodity prices, which, in turn, are expected to depress export-oriented industries, including those in Namibia. Under these circumstances, the country's domestic output will be negatively affected over the short to medium term. As a result of slowing global demand and the unfavourable impact of the international financial crisis, major Central Banks have started to ease monetary policy, and fiscal stimulus packages were introduced to boost economic growth.
3. In line with global trends, inflation in Namibia has started to abate. The National Consumer Price Index (NCPI) declined to 11.7 percent in November 2008 after it had stayed unchanged at 12.0 percent between August and October 2008. This slight decline is mainly attributed to lower food and transport prices. The risks to the inflation outlook have, therefore, changed somewhat, thus indicating an improved outlook for inflation, mainly on the back of a sustained decline in international oil prices and subsequent domestic fuel prices. The slowing global demand, due to the international financial crisis, is also anticipated to ease the risks to inflation, although the

recent depreciation of the exchange rate is still posing an upside risk to imported inflation.

4. Domestic demand conditions, as reflected in indicators, such as credit extension to the private sector, continue to be relatively restrained, thus proving that the previous tightened monetary policy stance of the Bank has been effective in containing domestically induced inflation. Year-on-year, total private sector credit recorded single digit growth of 9.9 percent in October 2008. This growth is below the annual inflation rate, implying that credit extension to the private sector is declining in real terms. Although motor vehicle sales surged during the month of October 2008, it is mainly attributed to a substantial Government fleet order destined for the Namibian Police. This, therefore, does not indicate a general increase in demand for motor vehicles.
5. The Bank of Namibia remains confident that its key anchor and intermediate target to ensure long-term price stability, namely the currency peg, remains sustainable. In this connection, liquidity conditions in the banking system remain favourable, and there has been no excessive or undesirable outflow of capital. Moreover, since the last meeting of the Executive Committee, international reserves still hover around N\$12 billion, which is more than sufficient to provide a cushion to sustain the currency peg.
6. In conclusion, three key factors provided the Executive Committee scope to justify some degree of easing the current less accommodative monetary policy stance. These are: first, the medium term inflation outlook that points towards further price slowdowns; second, the domestic demand that has been well contained and in need of a measure of stimulation, and, third, the major uncertainties arising from the current instability in international financial markets and its concomitant adverse effects on Namibia's economic performance. Taking these factors into consideration, the Executive Committee has decided to reduce the Bank of Namibia's Repo Rate by 50 basis points to 10.0 per cent with effect from Friday, 19 December 2008. The Bank believes that this decision is further supported by sufficient liquidity in the banking system and by the comfortable position of international reserve

holdings. Therefore, the slight easing of monetary policy conditions would not pose a threat to the maintenance of the currency peg. As usual, the Bank of Namibia remains vigilant about upside risks to inflation coming from exogenous factors and the uncertainties arising from the current international financial crisis. The Bank will, therefore, not hesitate to take the necessary actions at its disposal to defend the peg and ensure price stability.



^ Tom K. Alweendo
Governor