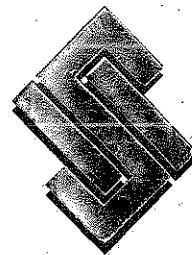


## Bank of Namibia

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### Media Statement

## MONETARY POLICY STATEMENT BY THE BANK OF NAMIBIA

1. On 19 October 2010, the Executive Committee of the Bank of Namibia held its monetary policy meeting to consider its monetary policy stance for the next two months. The Committee reviewed developments in the global and domestic factors since the last meeting held on 25 August 2010.

### The Global economy

2. Since the last EC meeting in August, the macroeconomic indicators continue to show that recovery in the global economy is underway, although there are uncertainties in most advanced economies. Nevertheless, the concern about a double-dip in the global economy has diminished somewhat. The favourable growth rate was mainly reflected in the positive growth figures from the US, which expanded by 3.0 percent and continues leading the recovery in advanced countries. More signs of recovery came from the Euro area and UK, whose growth figures came out strongly during the period under review.
3. However, the pace of recovery was not uniform among advanced and emerging economies. For example, Japan's GDP growth slowed to 2.0 percent, significantly lower than 4.7 percent in the first quarter of 2010.
4. Recovery in the emerging markets continues to be led by the Asian economies, with China being at the forefront and growing at an impressive rate of 10.3 percent, although lower than the first quarter growth of 11.9 percent. More encouraging signs of recovery in the emerging markets came from Brazil and India which both reported a growth rate of 8.8 percent. Growth in GDP of South Africa increased to 3.0 percent from a much lower growth of 1.6 percent.
5. Monetary policy for most economies continued to be on an expansionary course, with most central banks in advanced and emerging economies maintaining interest rates at record low levels to stimulate demand. However,

due to varying policy priorities, some countries, such as Canada and India, pursued different policy stances.

6. Notwithstanding the notable global economic recovery, there are a number of potential downside risks to the outlook. These include persistently high unemployment rates, high fiscal debt and the fragility of the financial sector, which continue to challenge the recovery. Of concern is the downward trending purchasing managers index (PMI) of most advanced and emerging economies. These have added concerns regarding the sustainability of the global recovery.

### **The Domestic Economy**

7. The Namibian economy continued to show firmer signs of recovery, which mainly mirror the trends in the global economy. This development strengthens our expectations that the economy will expand by around 4 percent in 2010, from an estimated contraction of 0.8 percent in 2009. The encouraging performance came mainly from the primary and tertiary sector, while the secondary sector displayed a weaker performance.
8. All variables in the primary industry with the exception of zinc concentrate and small stock marketed, displayed favourable performance. In particular, agricultural output performed relatively well led by cattle marketed. Improved performance in the mining sector also contributed to the positive performance of the primary industry. Developments in the secondary industry were, however, relatively weak owing to the low output in the manufacturing sector.
9. With regard to price developments, domestic inflationary pressures continue to ease although a slight upward movement was recorded in September 2010. Annual inflation rate rose slightly to 3.7 percent in September 2010 from 3.6 percent in August 2010. The modest increase in the annual inflation rate was on account of higher inflation rates of NCPI categories, such as food and non-alcoholic beverages; alcoholic beverages and tobacco; health, recreation and culture; and miscellaneous goods and services.
10. Notwithstanding a better performance witnessed in most real sector indicators, domestic demand has moderated somewhat as reflected in the slower growth in bank credit extended to the private sector. This slowdown was mainly driven by credit extended to businesses, which slowed year-on-year to 13.9 percent at the end of August 2010 from 18.0 percent at the end of the previous month. The deceleration in credit extension to businesses was mainly attributed to slower expansion in overdrafts. However, credit extended to individual continued to improve, growing at an annual rate of 8.0 percent at the end of August 2010 from 7.8 percent at the end of July 2010. The rise observed in credit extended to individuals was predominantly reflected in the category instalment credit.

11. The fiscal position continues to be stable with domestic Central Government debt in relation to GDP rising slightly from 10.3 at the end of August to 10.4 percent at the end of September 2010, but remained low. The rise on a monthly basis was mainly reflected in both the treasury bills and internal registered stocks due to increased borrowing.
12. At the end of September 2010, total foreign exchange reserves declined by 2.1 percent and stood at N\$11.6 billion. The decline was attributed to a few factors, such as weaker SACU revenue inflows and the stronger external value of the Namibia Dollar.

### **Monetary Policy Stance**

13. The Executive Committee maintains the view that in line with improved global economic outlook, the Namibian economy will continue to gain momentum, during the ensuing months of 2010. The Committee is nevertheless, fully aware of the downside risks to the domestic economy that might arise from the uncertainty of the global economic outlook. Taking into consideration both the recent economic and financial developments, the Executive Committee is of the view that a further measure of monetary policy easing is warranted to support the local economy. In this regard, the improved inflation outlook has created space for a slightly more accommodative monetary stance, so as to provide additional stimulus to the economy, which remains vulnerable to the uncertain global environment.
14. Against this background, the Committee decided to reduce the Repo rate by 25 basis points to 6.75 percent with effect from Thursday, 21 October 2010. The Bank will continue to monitor domestic and international developments and will take the necessary actions at its disposal to defend the currency peg and ensure price stability.



**Ipumbu Shiimi**  
**GOVERNOR**