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Statement of the Monetary Policy Management Committee (MMC)

1. Introduction

Following a review and discussions about the recent domestic and international economic developments, the Monetary Management Committee of the Bank of Namibia at its meeting held on the 11th of October 2006, has decided to increase the Bank rate by 50 basis points from 8.00 percent to 8.50 percent with effect from Friday, 13 October 2006.

This policy stance is based on the following considerations:

2. Developments in the Real Sector

Available indicators show that economic activities in Namibia slowed down, and this seemed to be in line with the deceleration observed in some of the major industrialised economies, notably the US. The latest estimates show that some key indicators in the mining and quarrying and agriculture sectors performed poorly in August 2006 compared to the previous month. This is despite the prevailing favourable exchange rates and high prices of meat. While economic activities are slow the growth for the year is still expected to be at a reasonable level. Domestic demand, on the other hand, continued to increase amidst the contractionary monetary policy stance taken in August 2006.

3. Inflationary Developments

Inflation in Namibia has generally been rising since the beginning of the year up to August 2006. It reached 5.4 percent in August from 5.1 percent in July 2006. The increase in the average annual inflation during August was mainly attributed to the rise in the inflation of transport, which is heavily influenced by the increase in fuel

prices. The other categories which contributed to the increase in inflation were alcoholic beverages and tobacco and miscellaneous goods and services.

Given the significance of the imported inflation from South Africa to Namibia, the soaring of the South African Producer Price Index (PPI) is a matter of concern. The PPI continued to grow at a faster pace of 9.2 percent during August compared to 8.1 percent during July of the same year. The increase during August 2006 is quite significant when compared to a slower growth of 4.2 percent recorded during the corresponding month of 2005. The perpetual rise in the PPI will further create inflationary pressures for Namibia.

4. Exchange Rates

The depreciation of the Namibian dollar, as observed in the second quarter, against major currencies continued into the third quarter of 2006. The Namibia Dollar depreciated quarter-on-quarter, against the major trading partners, viz the US Dollar (USD), Pound Sterling (GBP) and Euro (EURO) during the third quarter of 2006. When compared to the second quarter of 2006, the rates of depreciation were 10.9 percent, 13.7 percent and 12.4 percent against the US Dollar, Pound Sterling and Euro, respectively. Although the depreciation of the domestic currency is expected to have a positive impact on the exporting industries as Namibian products become more competitive abroad, adverse impact on inflation is a matter of concern.

5. Money Supply

Broad money (M2) continued to rise at the beginning of the third quarter of 2006, although the rate of growth slowed in August. On the year-on-year basis, M2 remained robust growing by 19.3 percent at the end of July 2006 and further by 18.4 percent in August. The average growth in M2 for the first 8 months of 2006 is 15.6 percent, slightly lower than 20.5 percent recorded for the same period in 2005. On the month-on-month basis, M2 grew by 2.1 percent in July 2006, but decline to 1.6 percent in August. Although this rate for the first 8 months is slightly lower, it is still of great concern for future inflationary pressures.

6. Credit Extension by Other Depository Corporations to Private Sector

Credit extension by other depository corporations to the private sector, remained robust although the rate of increase is abating. On the year-on-year basis, the credit extended to the other sectors rose by 22.1 percent at the end of July 2006 and further by a slower rate of 18.1 percent in August. The annual rise in the credit to the other sectors resulted mainly from credit extended to the other resident sectors which grew by 22.5 percent. Credit to other non-financial corporations also grew by 15.1 percent. The average growth for the first 8 months of 2006 showed stronger growth of 19.1 percent compared to 18.7 percent recorded for the same period in 2005. This development also points towards future pressures on inflation.

7. Monetary Policy Stance

From the review of the recent economic developments, the MMC noted with great concern the continuing inflationary pressures. Although recent indications are that international oil prices are slowing down, the prices still remain high and future developments are uncertain due to threats of instability in some major oil producing countries. The robust domestic demand, M2 growth, high fuel prices, and the depreciating domestic currency continued to pose an upside risk to domestic inflation outlook.

Given these developments, the MMC felt it necessary to take an appropriate monetary policy stance to mitigate the risks posed by these factors on inflation. The MMC decided to increase the Bank rate by 50 basis points from 8.0 percent to 8.50 percent. The MMC believes that the Bank Rate adjustment by this margin will not have a significant impact on the real economic activities, as it is mainly aimed at taming the robust consumer demand funded by bank credit.

The Bank of Namibia will continue to closely monitor domestic and international developments and their intended impact on inflation.

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Governor