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PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

1. The Bank of Namibia held its monetary policy meeting on the 30th of January 2008 to consider its monetary policy stance to be pursued over the next two months. The meeting evaluated domestic and international economic developments, including the near-term outlook for inflation and the various risks in the domestic and international environment.

2. Regarding the international economy, the Bank noted with concern the slowing of the global economy, underpinned by the recent financial market turmoil and a weakening of the U.S. growth performance. Moreover, there is a significant risk that ongoing turmoil in financial markets would further subdue domestic demand in other advanced economies with the potential for significant spillovers into emerging market and developing economies, including Namibia. It was noted that the balance of risks to the global economic outlook remains unfavourable. These include the risk of price pressures in a number of advanced and developing economies, primarily stemming from exogenous factors, such as higher food and energy prices. In this connection, monetary policy faces the difficult challenge of balancing the

risks of higher inflation and slower economic activity; although a possible softening of oil prices could moderate inflation pressures.

3. Regarding the Namibian economy, it was noted that following the adjustment of petrol and diesel prices by 1.7 percent and 7.8 percent on the 1st of December 2007, the annual rate of inflation increased moderately to 7.1 percent in December from 6.6 percent in October 2007. Food price inflation also continued to put upward pressure on the overall price levels, growing at a brisk rate of 13.6 percent in December 2007, albeit a slight moderation from 13.8 percent in the preceding month. Nevertheless, available demand indicators, such as private sector credit extension and vehicle sales, show that the growth in domestic demand continues to be subdued largely in response to tightened monetary conditions.

4. Growth in private sector credit eased from 16.6 percent in November 2006 to 13.5 percent, in November 2007. The slowdown in private sector credit growth was mainly attributed to credit extended to individuals, whilst credit extended to businesses showed a slight increase during the same period. At an annual rate, growth in credit extended to individuals slowed to 12.9 percent at the end of November 2007 from 18.6 percent in the corresponding month of the previous year. In contrast, growth in credit extended to businesses increased to 14.6 percent at the end of November 2007 from 13.0 percent one year earlier. The expansion in credit extended to businesses was mainly influenced by seasonal factors, such as short-term financing of increased inventory for the holiday season. It is worth noting that growth in asset-backed credit also displayed a downward trend. For instance, growth in mortgage loans, which accounts for the bulk of private sector credit, decelerated from 26.2 percent at the end of November 2006 to 14.3 percent at the end of November 2007. Similarly, growth in instalment credit decelerated to 3.6 percent at the end of November 2007 from 18.4 percent at the end of November 2006.

5. Moreover, the annual growth in total vehicle sales declined considerably, falling by 1.7 percentage points to 7.4 percent in December 2007 from 9.1 percent in the corresponding month of the preceding year. The decline was mainly reflected in the number of commercial vehicle sold, which contracted by 10.5 percent as opposed to an increase of 19.5 percent over the same period in the preceding year. On the other hand, the number of passenger vehicles sold rose significantly by 33.2 percent in December 2007 from a decline of 3.1 percent recorded in December 2006. However, the December 2007 increase in the sales of passenger vehicles was mainly due to the completion of fleet orders for the year.

6. Price developments since the last monetary policy meeting in December last year indicate that inflation has resumed a rising trend. The national consumer price index (NCPI) increased from 6.6 percent in October to 6.9 percent in November and then to 7.1 percent in December 2007 after having decelerated since August 2007.

7. The increase in inflation was mainly caused by the increases in annual transport inflation, which accelerated to 6.3 percent in December 2007 from 4.0 percent in October. This was largely attributed to an increase in the 'operation of personal transport equipment' sub-category, which accelerated from 9.1 percent in October to 13.0 percent in December 2007.

8. Food price inflation, although moderating, continues to put pressure on the consumer price index by increasing slightly to 13.6 percent in December from 13.5 percent in October 2007. The overall increase in international food prices continues to be underpinned by the 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. The demand for bio-fuels is expected to increase as the world shifts to the use of more environmentally friendly energy sources, and as crude oil prices

continue to be relatively high. It is therefore expected that food inflation will remain high, at least for the first half of 2008.

9. Looking ahead, the risks to the inflation outlook remain on balance slightly tilted to the upside, especially the pressure stemming from the latest increase in the South African Producer Price Index (PPI). The PPI, a leading indicator for consumer price inflation both in South Africa and in Namibia, accelerated from 9.1 percent in November to 10.3 percent in December 2007. However, it is expected that crude oil prices would subside, amid fears that the US economy is heading for a recession.

10. Going forward, local domestic demand conditions are continuing to moderate, thus the risks to inflation from these components have eased. Domestic inflation has, nevertheless, increased, primarily because of transport inflation. This could, however, mainly be attributed to high crude oil prices that prevailed in the last quarter of 2007, coupled with high food prices. The risks of increasing food prices due to the rise in the demand for bio-fuels and drought, therefore, remain tilted to the upside. Oil prices are, nevertheless, expected to subside in the latter part of the year, mainly because of the slowing demand in the world economy.

11. Overall, the fundamentals of the Namibian economy remain sound and supportive of the monetary policy stance in the context of the currency peg. These fundamentals include the prudent fiscal policy stance, which have led to positive fiscal balances and debt reduction. Moreover, underpinned by favourable commodity prices and strong SACU receipts, the external current account position remains robust. In this connection, it should be noted that despite excess liquidity conditions, the international reserves position of the country, currently standing at a comfortable level of N$7.8 billion, is more than adequate to meet the country’s short-term external liabilities and to cover more than three months of imports.

12. On balance, therefore, it appears as if an increase in the Bank rate at this stage could run the risk of unduly depressing already slowing domestic demand, which may hinder real sector growth, especially in view of the regional power shortages that will impact negatively on production. The Bank is also worried about the major uncertainties in the global economic outlook and the likely impact on Namibia. The Bank has, therefore, decided to keep the Bank rate unchanged at 10.5 percent per annum, for the time being. The Bank, however, views it as undesirable that the differential between the Bank rate and the prime rate of commercial banks remains substantial, despite the fact that the Bank rate is 50 basis points lower than the South African Repo rate.

13. The Bank remains, nevertheless, concerned about the rising inflation, and will not hesitate to adjust its policy stance should monetary conditions so demand in the interest of price stability.

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Governor