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PRESS STATEMENT

Statement of the Monetary Policy Management Committee (MMC)

1. Introduction

The Monetary Management Committee (MMC) of the Bank of Namibia, at its meeting held on 14 February 2007, closely examined recent domestic and international economic developments before formulating and pronouncing its monetary policy stance.

2. Developments in the Real Sector

Available indicators suggest that, despite tighter monetary conditions since latter half of 2006, economic activities in Namibia picked up during the fourth quarter of 2006. Parallel to this, was a recovery in the quarterly GDP growth of major economies, such as the USA, Euro-area, China, South Africa and Japan. Within the domestic economy, the latest estimates show that mining and quarrying performed exceptionally well, especially the output of diamonds, uranium, silver and copper. This performance was supported by robust global demand and strong commodity prices. In contrast, the agricultural sector continued to record poor performance due to a persistent decline in livestock marketing; strong meat prices, notwithstanding. From the foregoing, the economy is expected to have expanded at a provisional growth rate of 4.6 per cent in 2006.

3. Inflationary Developments

In line with softer international oil prices and in response to tighter domestic monetary conditions, inflationary pressures moderated somewhat in December 2006, as it stood at 6.1 per cent - the same percentage recorded in November 2006. In January 2007 the inflation rate continued to decelerate to 6.0 per cent. While the easing of inflationary pressures is a welcome development, the level of inflation remains a concern when compared with the level that prevailed a year ago. In January 2006, the annual rate of inflation was only 3.6 per cent.

The factors that continue to contribute to the relatively high inflation rate are above-average increases in food prices, mainly in the sub-categories of meat and fish prices. Other categories that exerted upward pressure on the inflation were alcoholic beverages and tobacco, education, especially tertiary, and miscellaneous goods and services mainly due to a sharp increase in financial services. However, the rise in prices related to transport started to decelerate due to the fuel price decreases introduced in October and December of 2006. Price pressure from this component is expected to abate further due to the reduction of pump prices in January this year.

Having considered the latest inflation developments, forecasts and expectations, the MMC does not expect the Namibian inflation rate to abate significantly in the immediate future as inflationary pressures are expected to persist, mainly on account of volatile crude oil prices and a weaker currency. While, the South African Production Price Index (PPI), being a leading indicator for consumer price inflation in Namibia, showed a slight decrease of 9.3 percent during December 2006 compared with the 10.0 per cent during the preceding month, this slowdown was mainly triggered by lower fuel prices. The PPI, and its concomitant impact on CPI, might change due to volatile oil prices and an expected increase in food prices.

4. Exchange Rates

The Namibia Dollar (NAD) depreciated steadily against the major currencies since the second quarter of 2006. Responsible for the weakening is the high level of the current account deficit in the South African balance of payments, which, in turn, has resulted from the firm consumer demand in South Africa. The Namibia Dollar traded at a monthly average of N$7.18, N$14.08 and N$9.34 during January 2007 against the US Dollar, Pound Sterling and the EURO, respectively. This depreciation, while improving Namibia's export competitiveness, is causing import prices to rise, thus further exerting inflationary pressures.

5. Credit Extension to the Private Sector

Although the growth in domestic credit extended to the private sector slowed down recently, it is still considered high and points to the existence of excess domestic demand in the economy. The annual growth in private sector credit in December 2006 stood at 14.7 per cent compared to 18.0 per cent at the end of October and 15.9 per cent in December 2005.

The downward movement in the growth of credit extension was reflected in credit extended to both businesses and individuals, albeit at a moderate pace for the latter. The annual growth in credit to businesses in December 2006 was 11.3 percent, while that for individuals stood at 16.9 percent. The corresponding rates for October 2006 were 16.5 per cent and 19.3 per cent, respectively. This suggests that business responded faster to tighter monetary policy. Despite these slowdowns, it is the view of MMC that credit to the private sector still expanded at a healthy rate with no visible signs of adverse impact on real economic activities. MMC also noted that, due to excess liquidity in the banking system, deposit rates did not increase at the same magnitude as lending rates, resulting in the widening of the spread between lending and deposit rates.

6. Monetary Policy Stance

From the review of the recent economic developments, the MMC noticed the moderation in the inflation rate. At this stage, the growth in domestic demand seems to be abating as witnessed by the slowdown in credit extension, which implies that inflationary pressures are mainly originating from exogenous factors. Nevertheless, rising food prices and uncertainties about weather conditions that could reduce agricultural produce, the depreciating domestic currency and the recent surge in international oil prices continue to pose a major risk to the domestic inflation outlook, although the risks seems to be fairly balanced. Considering the aforementioned economic developments, the MMC felt that an increase in the Bank rate this time would run the risk of excessively depressing domestic demand, which may affect real sector growth. In light of these developments the MMC decided to leave the Bank rate unchanged at 9 percent per annum, for now.

The Bank of Namibia will continue to closely monitor price developments, and stand ready to adjust policy should monetary conditions so demand in the interest of price stability.

Paul Hartmann
Deputy Governor