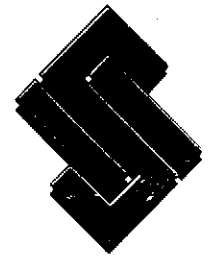


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22 June 2011

Media Statement**MONETARY POLICY STATEMENT ISSUED BY THE BANK OF NAMIBIA**

The Executive Committee (EC) of the Bank of Namibia held its monetary policy meeting on the 21st of June 2011 to reflect and deliberate on the appropriate stance of monetary policy for the two months ahead. The Committee carefully considered and reviewed developments in the global and domestic economy since the last meeting held on 26 April 2011.

The Global Economy

Growth in the global economy moderated as output from both advanced and emerging market economies declined during the first quarter of 2011. The outlook going forward remains gloomy due to heightened uncertainties mainly as a result of deepening concern about sovereign debt crisis and support for adjustment efforts in Europe's periphery. These conditions have placed tremendous pressures on global financial markets and increased the risk of contagion. In addition, production disruption caused by hostile weather conditions in some part of the world and the continued political unrest in the Middle East and North African regions have adversely affected growth.

Slow downs in the advanced economies were particularly visible in the US and Japan. The US economy grew by 2.3 per cent in the first quarter of 2011 from 2.8 per cent in the preceding quarter, while Japan's economy contracted by 1.0 per cent. The UK and Euro on the other hand, expanded, growing by 1.8 per cent and 2.5 per cent in the first quarter of 2011 from 1.5 per cent and 2.2 per cent in the preceding quarter, respectively.

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These expansions, however, were not large enough to positively impact on the global economy.

Growth in emerging and developing economies remained robust during the first quarter of 2011, but with considerable variation across regions. China's real GDP slowed slightly to 9.7 per cent from 9.8 per cent recorded in the fourth quarter of 2010. The economies of Russia and India also recorded slowdowns in the first quarter of 2011. This slowdown in the emerging markets is mainly attributed to the monetary policy tightening that was adopted to curb rising inflation and tame signs of overheating.

On international monetary policy developments, accommodative monetary policy in most of the advanced economies was maintained as negative output-gap remains the main concern than inflation. Unlike emerging market economies, advanced economy central banks can easily accommodate hikes in food and energy prices mainly because the weight of food and energy in their consumer baskets is relatively small. In the emerging market economies, however, the key policy priorities are to contain inflationary pressures and deal with the overheating problem. In this regards, most central banks in emerging economies, with the exception of South Africa, have tightened their respective monetary policies.

The Domestic Economy

Domestic economic indicators pointed downwards for much of the first half of 2011. The weakest performance was recorded in the primary industry, where the mining sector performed poorly in terms of production and exports, followed by the agricultural sector. The secondary industry, however, recorded some positive growth in a few sectors such as the manufacturing and construction sectors, but was too marginal to positively affect overall growth. The performance in the tertiary industry was weighed down by a dismal outturn in the wholesale and retail sector.

Domestic inflation rose to 5.2 per cent in May 2011 from 4.8 per cent in April 2011 mainly on account of increased inflation rates for food and non-alcoholic beverages. Annual inflation for food and non-alcoholic beverages rose to 5.6 per cent in May 2011

from 4.3 per cent in April 2011. The rise in food was driven by higher inflation rates recorded for categories such as bread and cereals, milk, cheese and egg; and for sugar, jam, honey syrups, chocolate and confectionaries.

Domestic demand slowed as reflected in private sector credit that declined during the period under review. The annual growth in Private Sector Credit Extension (PSCE) slowed from 12.2 per cent in February 2011 to 11.6 per cent in April 2011 despite a slight jump to 12.5 per cent in March 2011. The slowdown emanated from both the household and business sector, reflecting reduced growth in their overdrafts and mortgage loans.

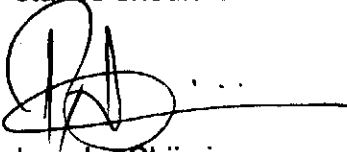
The Government domestic debt to GDP ratio increased slightly from 11.9 per cent at the end of April to 12.6 per cent at the end of May 2011. Despite that increase, the fiscal position in terms of debt to GDP ratio remained fairly strong. Total foreign reserves decreased by 1.3 per cent to N\$10.6 billion in May 2011. At this level, total foreign reserves still remains sufficient to support the peg as it is substantially higher than the currency in circulation and three months moving average of commercial banks' transfers.

Monetary Policy Stance

From the review of recent economic developments, the EC observed that global economic activities slowed down and downside risks have increased again thereby heightening uncertainties. Growth in many advanced economies particularly the US and Japan have weakened while momentum in emerging and developing economies has lost some steam. EC further noted that activities in the domestic economy have slowed as demand particularly for credit eased. Inflationary pressures continue to build up affecting headline inflation. However, underlying inflation remains subdued.

Following the above analysis, it is the view of the EC that the observed growth momentum at the beginning of the year that created an impression that recovery was consolidating was not firmly entrenched. EC also observed that inflation has increased, but still remain in the tolerable levels, especially the underlying inflation.

In light of the above, the EC decided to leave the Repo rate unchanged at 6.0 per cent and commit to continue monitoring international and domestic economic developments. The Bank of Namibia, in the interest of price stability stands ready to adjust its policy stance should conditions so demand.

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Ipumbu Shiimi
GOVERNOR