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## **Monetary Policy Statement by the Bank of Namibia**

### **A. Introduction**

At its Monetary Policy Management Committee meeting held today, the Bank of Namibia took a neutral position by keeping the Bank rate unchanged at 7.00 percent.

### **B. Developments in the real sector**

The available data on key real sector indicators such as the number of livestock marketed, number of vehicles registered, diamonds and base metals production show a decline in the second quarter of 2005 in relation to the preceding quarter. This could signal a slowdown in real economic activities. Furthermore, the ratio of non-performing loans to the total loan portfolio of commercial banks remained favourable, on account of the accommodative monetary policy stance.

### **C. Developments in inflation**

Annual inflation picked up slightly in June to 1.3 percent from 0.9 percent in May. Despite this latest development, inflation still remains lower, compared to an annual rate of 2.6 percent in February 2005, which is thus far the highest rate recorded in 2005.

#### **D. Exchange Rates**

The Namibia Dollar that had been depreciating against major currencies since January 2005 gained ground since July 2005. The recent strengthening of the local currency could be attributed to strong commodity prices.

#### **E. Money Supply**

The annual growth in the broad money supply (M2) increased strongly by 19.2 percent in June, following a growth rate of 15.5 percent that was registered during May 2005. Domestic claims on other sectors, which grew significantly by 20.9 percent in June from 16.5 percent in May, was the main factor responsible for such an increase in money supply. On the other hand, net foreign assets declined significantly in June 2005.

#### **F. Credit extension by Other Depository Institutions (commercial banks)**

Credit extended to the private sector eased slightly to 18.0 percent (y-o-y) in June from 18.3 percent (y-o-y) in May and 19.0 percent (y-o-y) that was recorded in April 2005. For the first six months of 2005, private sector credit recorded an average growth rate of 18.9 percent, which is higher than the average of 15.0 percent that was recorded in the corresponding period of 2004. Responsible for the easing in credit extension to the private sector in June was credit extended to individuals which eased to 23.3 percent (y-o-y), from 24.4 percent in May 2005. On the other hand, credit to the business sector grew by 10.1 percent (y-o-y) in June from 9.3 percent (y-o-y) in May. Growth in credit to the business sector is likely to stimulate business activities and thereby contribute to economic growth.

#### **G. Exogenous factors**

The price of oil averaged above US\$56 per barrel in July and is expected to average at US\$59 per barrel in the third quarter of 2005. The monthly average price of oil is

projected to remain above US\$55 per barrel for the remainder of 2005 and also next year. There are a number of factors contributing to the expectation of continued high crude oil prices in 2005 and 2006. These include, the projected increased demand of oil, the spare production capacity of OPEC countries which is said to have diminished with an exception of Saudi Arabia and furthermore the continued insurgency in Iraq. Higher oil prices seems to have already started affecting the world economic performance as witnessed by sluggish economic growth in major world economies in the second quarter of 2005, as well as rising inflation.

#### **H. Monetary Policy Stance**

The Bank of Namibia has observed with concern the subdued growth in real sector activities, which may necessitate accommodative monetary policy. However, the prevailing high growth in private sector credit which has a negative bearing on the balance of payment, as well as the high international oil prices are not supportive of such a stance. Therefore, taking into account all the relevant economic factors and in view of the fact that inflation is still contained, the Bank of Namibia has decided to take a neutral stance by leaving its Bank rate unchanged at 7.00 percent. Given the existing exchange rate arrangement, this is also in line with the South African Reserve Bank's Monetary Policy Committee's decision, taken today, 11/08/2005, that left its Repo rate unchanged at 7.00 percent. The Bank expects the business community to take advantage of the low level of interest rates to expand economic activities. The current monetary policy stance, therefore, remains supportive to further capital formation and robust economic activity.

**Tom K. Alweendo**

**Governor**

The Bank of Namibia's next review of the Bank rate position, for this year will be on the 13<sup>th</sup> October, 2005.