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Monetary Policy Statement by the Bank of Namibia

A. Introduction

Following the Bank of Namibia's Monetary Policy Management Committee meeting held today, the Bank has decided to cut its Bank rate by 50 basis points to 7.00 percent.

B. Developments in the real sector

Economic activities in Namibia continued to indicate improved performance during February 2005, similar to a positive growth performance that prevailed during the fourth quarter of 2004. The main real sector indicators such as the number of livestock marketed, number of vehicles sold and diamond production recorded relative improvements in February 2005. Furthermore, other real sector indicators such as electricity consumption, the number of civil debt cases and the number of companies and close corporations registered showed an improved performance.

C. Developments in inflation

The downward trend in inflation that started in 2004 continued to be observed at the beginning of 2005. The average annual inflation rate for the year 2004 recorded a relatively lower rate of 3.1 percent, compared to a rate of 7.1 percent and 11.3 percent experienced in 2003 and 2002 respectively. The average annual inflation rate for January and February was 2.6 percent, which is lower than the rate of 4.2

percent registered in the preceding two months and the 12.2 percent at the same period in 2004. This suggests that the level of inflation in the domestic economy seems to be relatively well contained.

D. Exchange Rates

Since the beginning of 2005, the Namibia Dollar (N\$) has started depreciating against the major international currencies, reaching a level of N\$6.3 against the US\$ at the end of March 2005. Furthermore, the local currency has depreciated against the EURO and the British Pound Sterling to the levels of N\$8.1 and N\$11.8 at the end of March 2005.

E. Money Supply

The broad money supply eased slightly to 12.2 percent in February 2005, compared to the growth of 16.1 percent experienced in December 2004 and 12.4 percent in January 2005. The key factor underlying the slight easing in money supply in February 2005 is the claims on the other sectors by depository corporations and the net foreign assets which registered increases of 19.1 percent and 40.0 percent, respectively.

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

Private sector credit rose by 17.1 percent annually in February 2005, relative to 19.0 percent in January 2005. When compared to the fourth quarter of 2004, private sector credit increased only by 2.0 percent. Credit to the business sector grew by 2.7 percent in February compared to 2.6 percent in the fourth quarter, while credit to individuals slowed to 1.1 percent in February, relative to a moderate growth of 8.9 percent in the fourth quarter.

G. Exogenous factors

Although the global economic conditions are expected to continue improving, mainly on account of the prevailing low interest rate environment, oil prices still remain a key

threat to global growth and poses upside risk to price stability. In fact oil prices had risen by 40 percent since January 2005 due to rising global demand in US dollar terms. However, there is reason for optimism in that, the Organisation of Petroleum Exporting Countries (OPEC) have announced that if the increasing trend in oil price continue, the cartel will consult members to increase production by 500 000 barrels per day.

H. Monetary Policy Stance

Overall, inflation in Namibia was relatively lower in 2004, compared to 2003 and 2002, respectively. The same trend seems to be prevailing in 2005. Furthermore, money supply eased slightly in February and therefore does not pose a significant threat to price stability. On the other hand, credit extension to the private sector registered a growth rate of 17.1 percent annually in February 2005. However, the growth rate in private sector credit should not pose a threat to price stability, as this growth in terms of categories composition is driven mainly by the business sector than credit to individuals. The upside risk on the inflationary environment could be posed by continuous depreciation of the local currency against major currencies on one hand, and the increases in oil prices on other hand.

After taking cognisance of all the domestic economic developments the Bank of Namibia (BoN) has decided to cut its Bank rate by 50 basis points to 7.00 with immediate effect.

Tom K. Alweendo
GOVERNOR

The Bank of Namibia's next review of the Bank rate position will be on the, 9th of June 2005.