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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 maintain its Bank rate at 7.00 percent.

B. Developments in the real sector

The Namibian economy registered improved performance in the first quarter of 2005 as demonstrated by improvements in key real sector indicators such as the number of livestock marketed and diamond output. In addition, other indicators of economic activity such as electricity consumption, the number of companies and close corporations registered positive performance, while the number of non-performing loans also declined.

C. Developments in inflation

The annual inflation rate for April decreased slightly to 1.6 percent from 1.7 percent in March and 2.6 percent in February 2005. The annual inflation rate observed in April is also lower compared to an annual rate of 4.4 percent registered during the corresponding period of 2004. This implies that the downward trend in inflation which started in 2004 is still continuing in 2005, indicating that domestic inflation is well contained.

D. Exchange Rates

The Namibia Dollar continued with the depreciating trend which started at the beginning of 2005, reaching a level of N\$6.9 to the US\$ at the beginning of June 2005 from N\$6.3 at the end of March 2005. In a similar trend, the local currency reached levels of N\$8.4 to the euro and N\$12.5 to the Pound Sterling at the beginning of June 2005. This trend of exchange rate depreciation could augur well in the future for the export industry, though it may pose a risk to inflationary expectations.

E. Money Supply

Broad money supply eased to 11.3 percent in March 2005, compared to 12.2 percent in February and 12.4 percent in January 2005. The main factors underlying the easing in money supply in March 2005 were claims on the other sectors by depository corporations and other items whose growth rates eased respectively.

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

Private sector credit increased to 19.0 percent in March 2005, from 17.1 percent registered in February 2005. The overall annual growth in private sector credit in March was supported by credit to the individuals which increased by 19.3 percent in March 2005 compared to the annual growth rate of 17.0 percent registered in February and 8.9 percent in the fourth quarter of the preceding year. On the other hand, credit to the business sector eased to 9.5 percent y-o-y in March 2005, compared to 14.3 percent y-o-y expansion, witnessed in February 2005. On a monthly basis, credit extension to the business sector surged by 4.5 percent compared to the contraction of the previous month. This improvement in private sector credit could be attributed to the accommodative monetary policy stance.

G. Exogenous factors

Global economic conditions are expected to continue improving, mainly on account of the prevailing low interest rate environment. Furthermore, oil prices seem to remain at higher levels during 2005. However, the announcement made by OPEC to

increase its total production to 30.3 million barrels per day in May and June, might assist to mitigate the risk to global growth which is normally threatened by high oil prices.

H. Monetary Policy Stance

Overall, inflation in Namibia was relatively lower in 2004, compared to 2003 and 2002, respectively. The same trend continues to prevail in 2005. Similarly, money supply eased slightly in March registering a growth rate of 11.3 percent compared to 12.2 percent in February. Credit extension to the private sector registered a growth rate of 19.0 percent.

After taking cognisance of all the domestic economic developments the Bank of Namibia (BoN) has decided to keep the Bank rate unchanged at 7.00 percent. The Bank of Namibia will continue to monitor domestic and international economic developments closely, and will make the necessary adjustment in the Bank rate to achieve the objective of price stability in Namibia when it is deemed necessary.

Tom K. Alweendo

GOVERNOR

The Bank of Namibia's next review of the Bank rate position will be on the, 11th of August 2005.