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Office of the Governor

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Media statement

MONETARY POLICY STATEMENT ISSUED BY THE BANK OF NAMIBIA

1. The Monetary Policy Committee (MPC) of the Bank of Namibia held its monetary policy meeting on the 23rd of August 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 its last meeting held on the 21st of June 2011.

The global Economy

2. The MPC noted that the pace of recovery of the world economy has slowed, and the momentum observed at the beginning of the year has started to cool off. Although growth in both the advanced and emerging market economies has slowed down, growth in the emerging market economies, especially in Asia, remained sound and continued to put some stimulus into a rather lacklustre global economy.

3. Growth in many advanced economies, however, remained rather subdued. The US economy recorded a growth rate of 1.6 per cent in the second quarter of 2011 down from 2.2 per cent in the preceding quarter. The main source of this deceleration was the weak growth in both private and public consumption. This was further exacerbated by others factors, such as housing and labour market problems.

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4. In the United Kingdom, economic activity also remained lacklustre during the second quarter of 2011 with real GDP growth slowing to 0.7 per cent from 1.6 per cent during the first quarter. This slowdown was mainly due to weak performance by the manufacturing, mining and quarrying as well as electricity, gas and water supply sectors. In the Euro zone, the sovereign debt concerns have negatively impacted on growth. The slackened growth in the Euro zone can also be attributed to weakened private consumption and restrained corporate investments.

5. Growth in the emerging market economies of Asia and elsewhere remained robust. China continued to lead the recovery, despite a slight moderation in growth to 9.5 per cent during the second quarter of 2011 from 9.7 per cent during the preceding quarter. Growth in fixed investment in China supported its economic activities.

6. In Russia, real GDP growth slowed to 3.4 per cent in the second quarter of 2011 from 4.1 per cent during the first quarter of 2010 due to subdued private consumption coupled with weak activities in its manufacturing sector. Brazil's real GDP for the first quarter also slowed to 4.2 per cent during the first quarter of 2011 from 5.0 per cent during the fourth quarter of 2010. Nevertheless, growth prospects for emerging markets remained dynamic, notwithstanding efforts to tighten monetary and fiscal policies in these economies.

7. Accommodative monetary policy continued in advanced economies, except in the Euro zone. All key emerging market economies tightened their monetary policies, except for South Africa and Russia.

8. On global inflation, rising prices for food and energy, which were the main sources of inflation, have now stabilised somewhat in recent months.

9. Global financial markets in the second quarter of 2011 were volatile, influenced by rising expectations that the Euro debt crisis would worsen, marked by default on Greek debt obligations. These developments saw global stock market indices decreasing.

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The domestic economy

10. With exception of the primary sector, growth in the secondary and tertiary sectors of the economy was satisfactory. Most primary industry economic indicators were weak during the second quarter of 2011 and during the first half of 2011 measured on a year-on-year basis. Adverse weather conditions and operational challenges during the early part of 2011 had a negative impact on especially the mining industry during the first half of 2011 compared to that of 2010.

11. Activities in the secondary industry improved during the first half of 2011, as reflected in the updated available indicators in both the manufacturing and construction sectors. With regard to the manufacturing sector, the production of blister copper, cement and beer improved during the period under review. Activities in the construction sector gained momentum as a result of ongoing construction activities, especially in the public sector.

12. In the tertiary industry, activities continued to show some improvement, as reflected in the wholesale and retail trade, communication and tourism sectors. The tourism sector performed well on a yearly basis and during the first half of the year. Data on employment showed an improvement in job creation in both the manufacturing, wholesale, and retail trade sectors in June 2011. Furthermore, new vehicles sold increased during the first seven months on account of sustained consumer demand supported by the low interest rate environment.

13. With regard to domestic price developments, inflationary pressures eased as international prices for food and crude oil that fuelled inflation during the preceding months started to stabilise. In this regard, annual inflation for all items reached a high of 5.4 per cent in June 2011, but subsided to 4.8 per cent in July 2011. The July 2011 inflation rate is, however, 0.2 per cent higher than the rate recorded in July 2010. The deceleration in overall inflation during July 2011 was largely attributed to reduced inflation rates for *food and non-alcoholic beverages*; *housing,*

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water, electricity, gas and other fuels; and alcoholic beverages and tobacco. The slowdown in inflation for food and non-alcoholic beverages during July 2011 was mainly attributed to the vegetables sub-category, which slowed down significantly.

14. Domestic demand strengthened as reflected in the higher growth in private sector credit extended (PSCE), particularly to businesses. Although total credit to individuals slowed slightly, mortgage lending, the largest component, rose. In this regard, PSCE rose slightly at the end of June 2011 to 12.9 per cent from 12.6 per cent at the end of the preceding month.

15. Fiscal position remained fairly prudent, as measured by the ratio of Central Government debt to GDP. However, increased borrowing is expected due to a higher budget deficit for the current fiscal year. The stock of foreign reserves rose marginally at the end of July, mainly due to quarterly SACU receipts. The MPC is confident that the level of foreign reserves is adequate to sustain the fixed currency peg of the Namibia Dollar to the South African Rand. In this regard, currency in circulation stood at N$1.5 billion at the end of June 2011, which is not close to the corresponding reserve stock of N$10.94 billion.

Monetary Policy Stance

16. From the review of the recent economic developments, the MPC is of the view that global growth has subsided and that the risk and uncertainties surrounding the near term outlook are still significant. The momentum observed at the beginning of the year has cooled off as the sovereign debt concerns continued to erode consumer confidence, particularly in the advanced economies. In the domestic economy, the positive demand and supply conditions that are prevailing point to a more favourable outlook of the domestic economy, but this can only be sustained by a strong performance of the global economy. Furthermore, MPC finds that the subdued inflationary pressures and sufficient official foreign reserves will augur for an accommodative monetary policy.

17. In view of the need to ensure a sustained growth in the domestic economy, the MPC believes that a change in its stance at this stage might be premature and could dampen the positive momentum. Against this background, the MPC decided to leave the Repo rate unchanged at 6.0 per cent. Nevertheless, the MPC notes with concern the prevailing volatility in financial markets among advanced economies and its potential impact on the global economy.

18. Consequently, the Bank of Namibia will not hesitate to take the necessary actions at its disposal to defend the currency peg and ensure price stability.

Ipumbu Shiimi
Governor