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PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

The Global Economy

1. Notwithstanding encouraging tentative signs of a bottoming out of negative global economic indicators, including a significant strengthening in commodity prices, the overall state of the global economy remains fragile and characterized by a lot of uncertainty. Most advanced economies recorded the worst quarterly GDP growth in the first quarter of 2009 since the start of the global financial crisis. Although the labour market typically responds with a lag following a recovery after a recession, the increase in unemployment levels in most advanced and emerging market economies presents a significant threat to the speedy recovery of global economic activity. It is also not certain if the recent revival in commodity prices, including those for some of Namibia's export products, will be long-lasting. Even if they do, increased commodity prices, especially soft commodities such as wheat and other cereals and crude oil prices, would at some stage in the future feed back into domestic prices and trigger renewed price surges as were seen during the commodity boom in 2007. This situation needs to be carefully and regularly monitored.

The Domestic Economy

2. Influenced by the protracted global economic crisis, the Namibian economy has weakened further since the last EC meeting. In this connection, the Bank of Namibia further revised its GDP growth projection downward from its April revision. The economy is now expected to contract by about 0.6 percent in 2009, mainly on account of weak mining activity, notwithstanding the strong performance of uranium mining. It is not expected that the significant expansionary fiscal policy will be sufficient and timely enough to offset the relapse in some sectors, such as tourism and related industries that are now expected to contract by as much as 20 percent. Construction activities are still expected to perform quite robustly in 2009, mainly on account of increased civil construction projects, while private construction remains relatively restrained. It is projected that the economy will recover moderately by 2010, but the balance of risk remains tilted to the downside, and much depends on how soon the global economy will recover.

3. Since the last EC meeting, most domestic demand indicators continue to be subdued, with motor vehicles sales, in particular, exhibiting signs of protracted weakness. Reflecting weak economic activity and job losses, demand for new vehicles remains suppressed, despite the monetary policy easing since the end of last year. In this connection, total vehicle sales declined by 18.5 percent during the month of May. Depressed demand was also reflected in bank credit extended to the private sector, which moderated on an annual basis to 9.9 percent in April 2009 from 10.3 percent in March. The moderation was mainly reflected in growth of credit to individuals, which decreased to 8.5 percent from 10.0 percent in March, while credit extended to businesses rose to 12.7 percent from 10.7 percent during the same period.

4. With regard to domestic prices, the downward movement in the annual rate of consumer prices continued during the month of May, with the annual rate of inflation decelerating to 9.6 percent from 10.0 percent in the previous month. The slowdown was mainly reflected in a sharp decrease in the transport category, which fell to 5.5 percent from 7.1 percent in April 2009. Nevertheless, with the recent increases in the pump prices of petrol, this development might

be slightly reversed going forward. More generally, while the short-term outlook for inflation remains favourable mainly on account of the rapid deceleration of the South African producer price index, the medium-term inflation outlook has deteriorated somewhat on the back of the strengthening in key commodity prices and the expansionary fiscal and monetary policies pursued virtually world-wide that could put upward pressure on consumer price inflation.

5. Notwithstanding a slight decline in the level of international reserves from N$14.6 billion at the end of April to N$14.2 billion at the end of May, it remains more than sufficient to sustain the currency peg. Moreover, liquidity conditions generally remain healthy with no adverse effects on capital flows foreseen.

Monetary Policy Stance

6. Mindful of the lagged effect of the previous policy decisions, the EC is of the view that a further measure of monetary policy easing is still necessary to stimulate economic activity by slightly boosting disposable income through a reduced interest burden. Against this background, it was decided to reduce the Repo Rate by 50 basis points to 7.0 percent with effect from 18 June 2009. Going forward and given the concern about the medium-term development in the consumer prices, there is a need to circumspectly observe the development in consumer prices.

Tom K. Alweendo
GOVERNOR