Ref. 9/6/2 **24 October 2012**

Media statement

Monetary Policy statement by the Bank of Namibia

The Monetary Policy Committee (MPC) of the Bank of Namibia held its monetary policy meeting on the 23rd of October 2012 to deliberate on the monetary policy stance for the next two months. The Committee reviewed the global and domestic economic developments since the last meeting held on the 21st of August 2012.

GLOBAL ECONOMY

Global growth remains weak across most OECD and BRICS economies, most notably Europe and the Eurozone. Growth in the UK has experienced two quarters of contraction, while the Euro zone experienced a 0.5 percent contraction in the second quarter of 2012, revised down from the previous 2012 Q2 figure of -0.4 percent growth. Growth in China, Russia and Brazil continued to decline in Q2 2012, while South Africa and India experienced relatively low growth.

Looking ahead, the IMF has revised down its global growth expectations for 2012, from the 3.5 percent projected in July 2012 to 3.3 percent in October 2012. Growth in advanced economies is projected to slow to 1.2 percent in 2012, underpinned by the spill over effects of slowing economic activity in the Euro Area. Resultantly, growth in emerging and developing economies is predicted to moderate further than expected in July 2012, to 5.3 percent, from earlier estimations of 5.6 percent. The downside risks to the outlook remain, including, in particular, a prolonged reaction and response time from the Euro zone and US with regards to addressing the current economic challenges.

However, policy decisions taken in the Euro zone, particularly with regards to the European Stability Mechanism and the proposed Single Supervisory Mechanism, appear to have reassured markets, and restored confidence. While there remains much to be done, it appears that the Euro zone is moving towards a solution to the debt crisis, improving the outlook for Europe in the medium term.

Commodity prices largely remain elevated, despite slowing demand in advanced and emerging economies. Energy and food prices remain relatively high when compared to recent previous years, despite a slight downturn in the price of maize over recent months. Metal prices have slowed slightly in recent months, as a result of slowing demand from advanced and emerging economies. Gold prices remain high, at over U$1725 per troy ounce, suggesting continued risk aversion from investors.

Purchasing Managers Indices (PMI's) for most of the advanced and emerging economies remained below the benchmark level of 50.0 through September 2012, displaying contractions in the manufacturing sectors of these economies. While many advanced and emerging economies experienced contraction in their manufacturing sectors in September 2012, the manufacturing sector in the USA continued to grow, though at a slower pace and remained above the 50.0 threshold. South Africa's PMI remained below the 50.0 benchmark, and displayed a negative trend, illustrating increasing contraction in the country's manufacturing sector. The German PMI too remains below the benchmark level; however it is experiencing an upward trend, illustrating slight recovery in the manufacturing sector.

Composite Leading Indicators (CLI's) illustrate a mixed picture for the coming six to nine months. South Africa, the United Kingdom and Japan are all expected to continue to experience growth, while the Euro Area and BRIC economies are expected to

Iv

experience contraction. The CLI's suggest however, that improvements in the global environment, particularly from China and the Euro zone are to be expected over the next 6 to 9 months. Further, the UK is expected to return to growth, from its current state of recession, in the near future.

DOMESTIC ECONOMY

Prospective developments in the Namibian economy hinge on global development transmissions, through export demand and international exposure through the Common Monetary Area to exchange rate fluctuations, and international financial markets. Economic growth in Namibia, while strong in the second quarter of 2012 at 8.9 percent, remains largely dependent on export demand and sustained commodity prices. Diamond demand and exports are expected to play a significant role in determining growth levels over the next 12 months.

Inflation (NCPI) increased to 6.7 percent in September, from 5.8 percent in August. This was driven predominantly by external factors, most notably increases in international cereal prices, which resulted in an 11.1 percent year on year increase in the price of bread and cereals in Namibia, as well as increases in global oil prices, which resulted in a 12.8 percent year on year increase in the cost of operation of personal transport equipment. As well as the aforementioned, upward price pressure was experienced across much of the consumption basket, from both external and internal sources. Rand depreciation, along with pervasive upward or high oil prices and on-going industrial action in South Africa, make it likely that inflationary pressures will persist for the rest of the year.

The broad money supply increased by 8.7 percent in August, year on year. At 8.7 percent, annual broad money supply growth in August was at the lowest level seen since January 2012. On the other hand, private sector credit growth increased to 14.2 percent in August, from 13.2 percent in the previous month. This growth was driven by loans to both

5v

households (individuals) and to businesses, which experienced growth of 14.2 and 14.3 percent, respectively. Increased loans to households were largely in the form of mortgages and instalment credit, which is a result of the low interest rate environment Namibia has experienced in recent years and also represents the highest level of growth seen in over three years.

Overdrafts and mortgage credit continued to grow in August, albeit at a slightly lower rate than in July. Following contractions and low growth levels in the first half of 2012, overdraft lending increased by 12.1 percent, year on year, in August. Mortgages continue to make up the largest category of private sector credit. Mortgage loans grew at 13.0 percent in August, down from 13.4 percent in July.

Continued strong growth in instalment credit, particularly to individuals, remains cause for concern, as such credit tends to be non productive, and increases the debt burden, and debt servicing costs of households. Instalment credit growth was strong in August, at 18.1 percent, despite being slightly below the 18.2 percent growth seen in July. The year to date average growth in instalment credit stands at 18.1 percent. Further, current levels of instalment credit growth have not been seen since late 2008.

The Government's fiscal position remained fairly strong, mainly on account of large SACU revenue inflows during the current fiscal year. While the ratio of government debt to GDP, now at approximately 28 percent, continues to increase marginally, the budget deficit experienced during April-September in the financial year 2012/2013 was below that experienced during the same period in 2011/2012. This was largely due to lower levels of expenditure relative to revenue in the current financial year.

The cumulative external trade balance deteriorated in August as a result of increases in imports, coupled with slow growth in export earnings. Increased imports were largely driven by fuel, vehicles and household goods. Despite the deterioration in external trade balance, the performance of the external sector with respect to the mineral subsector saw improvement in 2012 when compared to 2011. Increased production volumes, coupled with generally favourable commodity prices have resulted in increased production and export earnings from key minerals. Diamond production and sales earnings remain significantly higher in 2012 that 2011, year to date. On the other hand, cattle exports decreased in 2012 relative to 2011, contributing to the deterioration of the external trade balance.

MONETARY POLICY STANCE

In light of the aforementioned developments, the MPC remain of the view that the medium-term outlook remains overshadowed by uncertainty. Pervasive risks to global growth continue to threaten demand for Namibia's exports, and thus growth, foreign exchange reserves and thus import coverage. Further, elevated and downward-sticky food and energy prices continue to present externally driven cost-push inflation risks to Namibia going forward. Meanwhile, the stock of official foreign reserves remains healthy, and continues to support the currency peg. Despite this, growth in credit to households, particularly for "non-productive" uses remains of concern as they tend to fund imported goods which depend on foreign exchange reserves

In view of the above, the MPC believes that the benefits of sustaining the current low interest rate going forward are greater than the costs associated with such, particularly given global medium term growth expectations. To this effect, the MPC resolved to keep the Repo rate unchanged at the current level of 5.50 percent. The MPC remains committed to supporting growth, however remains vigilant in assessing levels of household debt, and will act on such should intervention be required going forward.

Ipumbu Shiimi
GOVERNOR