Ref. 9/6/2 **25 April 2012**

Media statement

Monetary Policy statement by the Bank of Namibia

1. The Monetary Policy Committee of the Bank of Namibia held its monetary policy meeting on the 24th of April 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 February 2012.

The global economy

2. Fragility in the global economy continued since the last MPC meeting in February, despite policy efforts to contain fiscal challenges in the Euro Area, create employment and maintain financial stability. Consistent with these developments, the IMF projected the growth rate of the global economy to moderate to 3.5 per cent in 2012, from 3.9 per cent in 2011. The most pressing challenges underpinning the slowed growth in the global economy are the high unemployment rates and weak consumption expenditures, especially in the advanced economies. Also, the protracted high oil and food prices pose inflationary pressures, which could be elevated if geopolitical tensions continue.

3. Output growth figures from the advanced economies displayed continued fragility, with the growth momentum moderating gradually across these economies. Economic activities in the emerging market economies also continued to show signs of moderation. In this context, real GDP growth in China slowed to 8.1 per cent in the first quarter of 2012 compared to 8.9 per cent during the fourth quarter of 2011. This is the slowest growth recorded since the second quarter of 2009. The slowdown was on account of weaker external demand from its major trading partners in the developed world, i.e., the US and the Euro Area.

4. Developments in the labour markets displayed mixed signals during March 2012 in the advanced economies. In this context, the unemployment rate in the US declined slightly to 8.2 per cent compared to 8.3 per cent in February, on the back of increased employment in the manufacturing and retail sectors. On the other hand, the unemployment rate in the Euro Area increased to 10.8 per cent in March 2012 from 10.7 per cent, with six of the seventeen

Euro Area member countries recording rates above 10.0 per cent. Meanwhile, the unemployment rate for Japan remained unchanged at 4.5 per cent during March 2012.

5. As seen during the previous meeting, the MPC noted that in line with the suppressed global growth, most central banks continued to pursue accommodative monetary policy stances during their latest meetings held between March and April 2012. On the financial markets front, global equity markets continue to be characterised by uncertainties, which resulted in varied performance across different markets. There were, however, mild signs of moderation in risk aversion. On the indicators of future performance, the Composite Leading Indicators (CLIs) for most advanced and emerging market economies rose slightly during January and February 2012. This signals a moderate improvement in future economic prospects, although growth concerns remain high, going forward. The Purchasing Manager Indices (PMIs) exhibited a mixed picture across countries, indicating different performances in the manufacturing sectors. Notably, for the Euro Area, both indicators remained restrained thereby signalling sluggish economic activities in that region.

6. The risks to global economic growth are elevated, with high fiscal deficits and high debt levels. Other potential risk factors include reduction in credit advances by banks and insufficient progress in developing medium-term fiscal consolidation plans in the United States and Japan. The continued weaknesses in the Eurozone economies are also poised to result in moderations in global output growth.

The domestic economy

7. The MPC noted that the performance of the domestic real sector year-to-date has been satisfactory, in contrast to the same period last year. In this regard, the non-diamond mining sector showed increased production when compared to the previous year. Diamond production, however, declined over the first quarter of 2012 owing to poor ore grade and operational constraints. Also, activities in the agriculture and manufacturing sector displayed lacklustre outcomes, year-to-date

JU

8. Other sources of positive growth include the construction sector, as the values of buildings completed increased during the first two months of 2012, for both residential and commercial properties. The wholesale & retail trade, tourism, communication and transport sectors also posted positive performance.

9. Since the last MPC meeting, annual inflation for all items slowed to 6.9 per cent in March 2012, from 7.4 per cent in the previous month. This moderation was in line with reduced inflation rates for categories such as *housing, water, electricity, gas and other fuels*; *health* and *recreation & culture*. This development brought the average inflation rate for the first quarter of 2012 to 7.0 per cent, which is two times higher than the corresponding rate for 2011. Despite the appreciation of the Namibia Dollar since January 2012, the rising international oil prices continued to have an incremental effect on domestic pump prices. On that note, while inflationary pressures are viewed to remain on the upside, however, overall inflation is expected to remain within tolerable levels.

10. MPC noted that growth in credit extension to the private sector (PSCE) continued to slow, moderating to 10.2 per cent at the end of February 2012 from 11.2 per cent at the end of the preceding month. This reflects moderation in credit advanced through mortgages as well as overdrafts, while instalment credit continued to pick up. On the fiscal front, the stock of public debt continued to increase in line with the increased borrowing requirement. In this regard, the Central Government total domestic debt stood at 17.4 per cent of GDP at the end of March 2012, which is 0.4 percentage point and 5.5 percentage points higher than the ratios at the end of February 2012 and March 2011, respectively.

11. Despite the positive outturns in production, commodity export performances were rather dismal during the first three months of 2012, with the exception of gold and diamonds. In this respect, export earnings from uranium, zinc concentrate, blister copper and refined zinc were lower in contrast to the same period last year, partially owing to low prices as well as inventory build-up. Similarly, the performance of livestock exports was weak over the same period.

IJ

12. The stock of international reserves declined by 10.3 per cent month-on-month to N$13.4 billion at the end of February 2012, owing to net outflows. Nonetheless, the MPC remain confident that the currency peg, which is the intermediate target to maintain price stability, remains sustainable as the reserves are 8 times the currency in circulation.

Monetary Policy Stance

13. Following a comprehensive review of global and domestic economic conditions, the MPC maintains the view that the medium-term growth trajectory is clouded by downside risks. Although the majority of domestic indicators displayed robustness, the uncertainties regarding developments in the Euro Area, which remains Namibia's major trading partner, creates room for concern. Taking into consideration developments regarding inflation, which is largely driven by global factors, as well as feeble economic activities, the MPC is of the view that the prevailing monetary policy stance is appropriate to support domestic growth prospects. Also, the level of reserves is still at appropriate levels to sustain the currency peg. In light of this, the MPC decided to maintain the Repo Rate at 6.00 per cent.

Ipumbu Shiimi
GOVERNOR