Monetary Policy Statement

Bank of Namibia

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REPO RATE REMAINS UNCHANGED AT 5.50 PERCENT

Since the last MPC meeting, global growth continued its gradual recovery, driven by emerging market economies, particularly China and India. However, the slight improvement in growth was primarily driven by economic recovery in the advanced economies, particularly developments in the US and UK. With the exception of South Africa, real GDP growth increased in most emerging market economies during the third quarter of 2013, and a similar picture was seen in most advanced economies, with the exception of Japan. Despite the fragile global environment, growth in Namibia remains relatively strong, although it has been revised down to around 4 percent in 2013, lower than 5 percent in 2012. Inflation slowed in October, and is expected to remain low for the remainder of the year. International reserve levels have fallen due to continued high levels of imports and large outflows of funds. However, reserves remain adequate to maintain the fixed currency arrangement and meet other international obligations. Given the above, the MPC is of the view that the repo rate should, for the time being, be maintained at the current level to support the domestic economy. The MPC has therefore decided to keep the repo rate unchanged at the current level of 5.50 percent.

Global growth is starting to pick up, driven by sustained high growth in emerging market economies and a gradual economic recovery in advanced economies.

1. Since the last meeting of the MPC, economic recovery strengthened, though slowly, in advanced economies with improvements being seen in the US and UK. Nevertheless, global growth remains driven by emerging market economies, particularly China and India. With the exception of South Africa, real GDP growth increased in most emerging market economies during the third quarter of 2013. However, uncertainties surrounding the exit from an expansionary monetary policy in the United States, in a context of declining unemployment rates, have added volatility to emerging markets, with consequences on their exchange rates and international capital flows.

2. Average international mineral prices declined for the first 10 months of 2013, compared to the same period in 2012, on account of relatively weak demand. Additionally, internationally fuel and food prices have abated somewhat over recent months, but remain volatile. However, a depreciated exchange rate has offset some of these gains in import costs; while, weak metal prices continue to put pressure on Namibia's export earnings.

Domestic growth projections for 2013 have been revised down; however the Namibian economy remains relatively resilient to global developments.

3. Overall growth for 2013 is projected to register around 4 percent; down from the previous projection of 4.7 percent in August 2013. The downward revision was mainly on account of weak primary sector activities, particularly agriculture, due to the current drought conditions in the country. On the other hand, the construction sector is estimated to have performed well in 2013, due to brisk economic activity in public works and large on-going mining investments. In addition, wholesale and retail trade experienced increase sales on account of tax relief and the civil service salary re-grading.

4. Namibia's headline inflation slowed to 4.9 percent in October 2013, due to low inflation rates for food and non-alcoholic beverages and alcoholic beverages and tobacco, while transport and housing inflation increased slightly. Further, the Namibia Statistics Agency rebased the Namibia Consumer Price Index, resulting in a lower contribution of food and non-alcoholic beverages to the overall basket while that of alcoholic beverages and tobacco, housing, water, and electricity increased.

5. Annual growth in the Private Sector Credit Extension (PSCE) rose to 13.7 percent at the end of October 2013, compared to 13.3 percent at the preceding month, due to increased demand for credit from businesses and individuals. Credit extended to individuals recorded annual growth of 14.9 percent at the end of October 2013, while growth in credit extension to the corporate sector increased to 11.9 percent. The growth rate of credit expansion to individuals has remained high, thus warrants targeted intervention.

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6. The level of international reserves declined at the end of the third quarter of the year, compared to the previous quarter, reaching N$13.2 billion as of the end of November 2013. Import cover declined to 9.2 weeks due to large increases in the import bill, largely relating to the construction activities in the mining sector and to a lesser extent luxury goods. Nevertheless, the decline in reserve coverage is transitory and reserve levels remain adequate to maintain the fixed currency arrangement and meet other international obligations.

Monetary Policy Meeting

7. On the 11th of December 2013, the Monetary Policy Committee (MPC) of the Bank of Namibia held its bi-monthly meeting to decide on the monetary policy position for the next two months. The meeting reviewed the global, regional and domestic economic and financial developments since the last meeting, held on the 22nd of October 2013, and the decision was taken to keep the repo rate unchanged at 5.50 percent. The next meeting of the MPC will be held on the 18th of February 2014.

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Governor