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PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

1. The Executive Committee of the Bank of Namibia met on 16 February 2009 to formulate the monetary policy stance for the next two months.

2. Since the previous monetary policy meeting of the Executive Committee, the global economic crisis continued to intensify and spread. Global consumer demand and investment activity are stagnating, thus suppressing production of goods and services on a broad scale. Moreover, intense turmoil is experienced in international financial markets, including volatility in asset prices and exchange rates. Against this background, the International Monetary Fund, in its latest update of the world economic outlook, projects global output to decelerate to a mere 0.5 percent in 2009, the lowest in more than a decade. In line with these developments, key commodity prices, including food and energy products, continued to decline thus providing welcome downward pressure on inflation going forward. On the other hand, the decline in prices of metal and other mineral commodities, does not hold good prospects for Namibia's export-oriented industries, and consequently for the general economic outlook for 2009. In this connection, it is estimated that economic growth will slow to 1.0 percent in 2009, from an estimated growth of 2.7 percent in 2008.

3. Having slowed for several months, there was an unexpected rise in the annual rate of inflation in January 2009. In this month, the annual rate of inflation increased to 12.5 percent from 10.9 percent in the preceding month,

mainly on account of significant increases in the categories: education, in particular tertiary education; housing, water, electricity, gas and other fuels; and furnishing household equipment and routine maintenance. On the other hand, key determinants of recent inflationary pressures in Namibia, i.e. food and transport continued their downward path. In this regard, the annual rate of food price inflation decelerated to 16 percent in January from 18.3 percent six months earlier, while transport inflation declined to 9.9 percent from 18.1 percent during the same period. Moreover, on international commodity markets there has been a noticeable decline in the price of fuel and agricultural commodities, although the full impact is yet to be seen in domestic prices. In this connection, the Executive Committee views the surge in consumer price inflation in January to be of a technical and therefore temporary nature, and expects that in the medium term inflation should continue its downward trajectory.

4. With respect to other domestic economic indicators, the global economic crisis has already started to impact negatively on the export-oriented sectors, most notably mining. In the mining sector, copper and diamond production have been worse hit with the envisaged combined job losses in the mining sector estimated at just below 2000. Moreover, through back and forward industrial linkages, activities in other sectors, such as transport and travelling also started to slowdown. Over time, these job losses would exacerbate the already weak domestic demand. In this connection, demand indicators, such as vehicle sales, building plans passed and buildings completed, as well as growth in credit extension remained subdued. Year-on-year, total private sector credit recorded expanded by 10.6 percent during December 2008, which is lower than the prevailing inflation rate, thus implying that credit extension to the private sector is declining in real terms. Motor vehicle sales decline by 25.9 percent in January. Building plans passed fell by 25.9 percent, while buildings completed declined by 65.8 percent.

5. Notwithstanding the rise in the inflation rate in January 2009, the Bank of Namibia is confident that its key anchor and intermediate target to ensure long-term price stability, namely the currency peg, remains sustainable. In

this connection, liquidity conditions in the banking system remain favourable, and there has been no excessive or undesirable outflow of capital. Moreover, since the last meeting of the Executive Committee, international reserves further increased to N$14.5 billion, which is more than sufficient to provide a cushion to sustain the currency peg.

6. Taking into consideration both the international and domestic economic conditions, the Executive Committee is of the view that a further round of monetary policy easing is necessary to support the local economy by providing a stimulus for consumer and investment demand expansion. Against this background it was decided to reduce the Repo Rate by 100 basis points to 9.0 per cent with effect from 18 February 2009. For this accommodative monetary policy to have the desired effect, it is necessary to be accompanied by a complementary fiscal stimulus. The Bank will continue to monitor domestic and international economic developments and will take the necessary actions at its disposal to defend the currency peg and ensure price stability.

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Governor