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PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

1. The Bank of Namibia held its monetary policy meeting on 13 June 2008 to deliberate and decide on an appropriate stance of monetary policy for the next two months.

2. Underpinned by a sharp increase in international fuel prices and persistently high food prices there has been a notable deterioration in the inflation conditions in Namibia since the Bank's last monetary policy meeting in April this year. Consequently, the annual rate of consumer price inflation increased to 9.7 percent in May 2008 from 9.3 percent in April 2008 and from 8.4 percent in March this year. Accelerating inflation is, however, not unique to Namibia, as inflationary pressure has become a world-wide phenomenon, driven largely by external factors. Even oil producing countries in the Middle East experience high consumer prices inflation and in some instances have reported double digit inflation.

3. In Namibia, inflation originating from sources other than food and fuel has risen at a slower rate than overall inflation. This is mainly the result of weakened domestic demand, which was induced by the restrictive nature of monetary policy pursued since the middle of last year. However, domestic inflation shows some signs of second-round effects emanating from rising fuel and food prices.

The subsiding domestic demand is especially noticeable in the slowdown in credit extended to the private sector by commercial banks. Annual growth in total private sector credit extension stood at 12.1 percent in April 2008, which was slightly down from 12.2 percent the month before. However, some components of credit extension slowed more noticeable: In April 2007 growth in instalment credit stood at 10.3 percent, compared to 5.1 percent in April 2008, while growth in mortgage loans slowed from 26.2 percent to 11.7 percent and asset-backed credit slowed from 21.9 percent to 10.1 percent over the same time period. Other domestic demand indicators, such as vehicle sales and building plans passed, have shown a similar sluggish trend.

4. The Bank of Namibia remains committed to price stability by conducting stability oriented monetary policy embodied in the fixed exchange rate arrangement with South Africa and all other objectives remain subservient to, but can best attained through the exchange rate objective. Thus, protecting exchange rate peg is the intermediate target of monetary policy for Bank of Namibia. Accordingly, the Bank sets official interest rates at a level that it considers sufficient to provide the necessary support for the exchange rate peg. A key requirement to maintain and defend the currency peg is to hold sufficient international reserves to at least cover currency in circulation. In this context, there was a significant strengthening of the country's foreign exchange reserves since 2006. By the end of May 2008, Namibia's foreign exchange reserves stood at a healthy N$9.3 billion, which compares well with the currency in circulation that stood at N$1.3 billion. This implies that foreign exchange reserves were seven times higher than what is required to sustain the currency peg.

5. It is further reassuring to note that, since the last two monetary policy meetings when the Bank decided to leave the Bank rate unchanged compared to the South African Repo rate, there were no adverse movements of capital flows between Namibia and South Africa. In fact, since then there was a further strengthening in the country's overall reserves position suggesting that inflows have been higher than outflows.

6. The Bank is also mindful of its secondary objective, namely to promote orderly and balanced economic development by taking due regard to the current economic conditions in the country. In this regard, it is reassuring to note that the real sector is performing quite well under difficult circumstances, the fiscal situation is healthy and supportive of monetary policy, and the current account of the balance of payments continues to record strong surpluses.

7. Having considered all factors, the Bank of Namibia has decided to keep the Bank rate unchanged 10.5 percent. It is believed that this decision does not pose a threat to the country's reserves outlook over the medium term. However, at the same time the Bank of Namibia remains concerned about the deteriorating inflation conditions, especially emanating from exogenous factors. Should any of the underlying economic conditions pose a threat to the maintenance of the currency peg, the Bank of Namibia will not hesitate to use instruments at its disposal to defend the peg and thereby supporting price stability.

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Governor