

Bank of Namibia

71 Robert Mugabe Avenue
P.O. Box 2882, Windhoek, Namibia
Tel: +264-61-283 5130 Fax: +264-61-229874



Office of the Governor

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PRESS STATEMENT**Monetary Policy Statement by the Bank of Namibia****The Global Economy**

1. Since the last meeting of the Executive Committee in December 2009, incoming economic data indicate that economic activity in many parts of the world had been much stronger than anticipated. In this regard, the US economy expanded by 5.7 percent during the fourth quarter of 2009 and the Chinese economy by a blistering 10.7 percent. Closer home, the South African economy also expanded by a stronger than anticipated 3.2 percent during the last quarter of 2009, confirming that South Africa has exited from the so called technical recession. In contrast to these robust performances, the Euro Area and the UK continued to record negative growth rates of 3.2 percent and 2.1 percent, respectively during the fourth quarter of 2009. The contraction of GDP growth in the Euro area had in part been influenced by the weak economic performance of Portugal, Ireland, Greece and Spain, while activity in Germany and France, the Euro Zone's largest economies recorded positive growth. Overall, the World Economy is expected to expand by about 4.0 percent in 2010 according to latest IMF projections.
2. Despite the stronger than anticipated global economic recovery, the performance of financial markets around the world has been quite volatile since the beginning of 2010. Mainly responsible for this volatility has been news on the indebtedness of some Euro countries such as Portugal and Greece that created uncertainty about the sustainability of the global recovery.

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On the other hand, mineral prices continued to be relatively strong reflecting buoyant demand in emerging economies such as China and India. This bodes well for the future performance of Namibia's mineral sector that is heavily dependent on external demand. On the other hand, reflecting surplus production and weaker global demand, international food and energy prices eased somewhat since the last EC meeting presenting a favourable picture for the near term inflation outlook in Namibia.

3. Notwithstanding the emerging global economic recovery, there are a number of potential downside risks to the outlook. These include the high level of unemployment in advanced economies that present a drag for consumption led growth and the high level of public indebtedness by a number of advanced economies that creates uncertainty about future fiscal sustainability.

The Domestic Economy

4. Influenced by the global economic downturn in 2009, the Namibian economy is estimated to have contracted by about 1 percent. The estimated contraction was mainly as a result of poor performance in export-oriented subsectors such as minerals and tourism. Supported by an expansionary budget, as well as a more accommodative monetary policy, the secondary and tertiary industries are estimated to have moderately expanded during 2009. Nevertheless, the positive performance of these sectors was not strong enough to offset the poor performance of the export-oriented sector. Looking ahead the Namibian economy is expected to expand by 4.2 percent in 2010 due to resurgence in the mining and quarrying sector and continued strong performance of the construction sector.
5. With respect to prices, the annual rate of inflation declined by 0.7 percent to 6.3 percent in January 2010. The slow-down in inflationary pressures was mainly on account of food price inflation that decelerated to 5.3 percent from 15.9 percent one year earlier. On the other hand, transport inflation, the other main driver of overall inflation, increased slightly to 9.3 in January 2010 from 9.1 percent in the preceding month, but still somewhat lower than the 9.9 percent

recorded one year earlier. Underlying inflation, i.e. inflation excluding food and transport prices, declined to 3.5 percent in January 2010 compared to 6.4 percent in the corresponding month of last year.

6. In line with the improved outlook, the performance of available domestic demand indicators such the value of building plans approved and completed, and motor vehicles sales improved since the last EC meeting. In this connection, both the value of building plans approved and buildings completed increased on an annual basis by 2.3 percent and 13.3 percent, respectively during the month of December. On an annual basis, the number of total vehicles sold increased by 21.0 percent during the month of January 2010. The increase was reflected in both commercial and passengers vehicles that increased by 32.6 percent and 8.6 percent, respectively.
7. Driven by both credit to households and businesses, the annual growth in credit extended to the private sector slowed to 10.0 percent at the end of December compared to 10.9 percent in the previous month and 11.3 percent at the end of December 2008. The deceleration in credit was mainly reflected in credit to individuals that slowed to 6.3 percent in December from 10.7 percent one year earlier. This is reflecting a reduction in real disposable income and stricter lending practices of commercial banks due to uncertainties related to the sustainable economic recovery. The annual growth rate in credit extended to the business sector also slowed moderately in December, although it remained fairly strong at 17.4 percent compared to 12.4 percent at the end of December 2008. This does not necessarily suggest an improved outlook for business as during times of economic distress businesses tend to borrow more to keep operations afloat.
8. During 2009 fiscal operations as reflected in total government debt to GDP remained strong and supportive of the currency peg. In this connection, the proportion of domestic debt to GDP significantly decreased to 9.9 percent at the end of January 2010 from 12.9 percent at the end of December 2009 and 13.0 percent one year earlier. The decline was mainly reflected in long term bonds due to the redemption of GC10 in January 2010, while the issuance of short-term debt increased. During the month of January total reserves increased to

N\$14.6 billion from N\$13.8 billion at the end of December 2009. This translates in about 5 months of import cover and augurs well for the maintenance of the currency peg, which requires that all currency in circulation should be backed by international reserves.

Monetary Policy Stance

9. Overall the Executive Committee is of the view that in line with the improved global economic outlook, the near term outlook for the Namibian economy has improved somewhat. Due to excess capacity, there is also no immediate threat to the inflation outlook coming from exogenous factors such as international food and crude oil prices. The Committee is, nevertheless, fully aware of the upside risk to long-term inflation associated with excessive global stimulus and possible upward pressure on energy and food prices as the global economic recovery gains momentum. Taking into account all these developments, the Executive Committee has decided to leave the Repo rate unchanged at 7 percent per annum. The Committee will continue to closely monitor the global and domestic economic developments, and will not hesitate to attune policy should conditions so demand.



Tom K. Alweendo
GOVERNOR