Ref. 9/6/2 **20 February 2013**

Media statement

Monetary Policy statement by the Bank of Namibia

1. The Monetary Policy Committee (MPC) of the Bank of Namibia held its meeting on the 19th of February 2013 to deliberate on the monetary policy stance for the next two months. The Committee reviewed the global, regional and domestic economic and financial developments since the last meeting held on the 11th of December 2012.

GLOBAL ECONOMY

2. **Since the last MPC meeting, growth in the advanced economies slowed, with a number of economies experiencing a contraction.** Weak economic activity in the Euro Area caused its economy to shrink by 0.6 percent in the fourth quarter of 2012, their third consecutive contraction. The US economy contracted from a growth rate of 3.1 percent in the third quarter of 2012, to -0.1 percent in the fourth quarter. While a high level resolution was found to avoid the fiscal challenges in the US in late December 2012, the challenges relating to government spending cuts remain unresolved. Japan's economy also remained in recession in recent months. Growth in advanced economies is expected to average 1.4 percent in 2013.

3. **Unemployment remains elevated across the Euro Area, and to a lesser degree, in the US.** Eurozone unemployment remained at the record high level of 11.7 percent as of January 2013. The unemployment rate in some peripheral countries is much higher. While Germany's unemployment level increased from 6.7 percent in December 2012 to 7.4 percent in January 2013, Greece's unemployment level stood

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at 27 percent in December 2012. The US unemployment rate rose from 7.8 percent to 7.9 percent between December 2012 and January 2013.

4. **Growth in emerging market economies was mixed in the third and fourth quarters of 2012, but remained more resilient than that of the advanced economies.** Trade linkages continue to influence the growth of emerging market economies through suppressed demand for exports and further deteriorating international terms of trade, especially for oil importers. During 2012, growth in South Africa was adversely impacted upon by industrial actions in both the mining and agricultural sectors, coupled with unresolved problems of the Euro zone. Growth in China also slowed somewhat between the third and fourth quarter, from 2.2 percent to 2.0 percent. On the other hand, growth in Brazil increased to 0.6 percent in the third quarter of 2012, from 0.4 percent in the preceding quarter, while India's growth remained unchanged at 0.6 percent.

DOMESTIC ECONOMY

5. **Namibia's economy remained relatively strong, despite the fragile global growth.** Growth in 2012 is estimated at 4.6 percent, while for 2013, it is projected at 4.4 percent. While growth in 2012 was driven by the primary and secondary industries, growth in 2013 is expected to be driven by the secondary industries, particularly the construction sector. The mining sector, which was estimated to have grown at approximately 17.0 percent in 2012, is expected to see moderate growth of 3.8 percent in 2013, just above the overall primary sector growth expectation of 3.0 percent. The tertiary sector is expected to grow at 3.1 percent in 2013, the same level of growth estimated for 2012.

6. **The January 2013 inflation rate of 6.6 percent was slightly higher than the average rate of 6.5 percent for last year and the 6.3 percent inflation rate registered in December 2012.** The increase in the inflation rate was on the back of

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annual increases in administered prices, particularly tertiary education and housing, while food inflation remained elevated. The increase was largely on account of increases in the prices of education, miscellaneous goods & services, and hotels, cafes & restaurants. Food prices also contributed to overall inflation, increasing by 7.8 percent year-on-year in January 2013.

7. **Domestic demand, as demonstrated by private sector credit extension (PSCE), remains strong, reflecting a strong expansion of credit to businesses in recent months.** Despite declining slightly when compared to the November PSCE growth figure of 18.5 percent, the registered 17 percent growth of PSCE in December 2012 was the second highest level of PSCE seen in almost six years. Credit to businesses grew by 22.2 percent at the end of December 2012, compared to a growth of 6.0 percent during the corresponding period of the previous year. Credit extended to individuals was more circumspect, growing at 13.9 percent at the end of December 2012. Credit extended for mortgages continued to grow by 13.1 percent at the end of December, albeit lower than the 14.3 percent at the end of November 2012. Similarly, instalment credit growth slowed to 12.6 percent, from 14.8 percent over the same period.

8. **The Namibia Dollar depreciated on average against major currencies in November and December of 2012, as well as in January 2013.** The currency continues to trade at elevated levels ranging between 8.8 and 8.9 Namibia Dollar to the US Dollar over recent days. The currency depreciation is based on the peg to the South African Rand, which has depreciated as a result of a large sell-off of Rand-based assets, including government bonds. This sell off was on the back of adverse developments in the labour market, and the downgrading of South Africa by various rating agencies, coupled with a widening current account deficit, currently over R200 billion.

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9. **Namibia's stock of international reserves remains sufficient to cover the fixed exchange rate peg.** By end-December 2012, the stock of foreign reserves stood at 3.4 months of import cover for goods and services, above the international benchmark level of 3 months of import coverage. However, the level of reserves for December was lower than the previous month which was boosted by the proceeds of the R850 million bond issued by the Government of Namibia on the JSE, as well as valuation gains on the back of domestic currency depreciation.

MONETARY POLICY STANCE

10. **In light of the aforementioned, the MPC is of the view that the global economy remains fragile, and downside risks persist**. Recent data suggests that the Euro Area will remain in recession over the short term, while data from the US suggests that growth in the world's largest economy is fragile. While US fiscal challenges were somewhat mitigated in late 2012, the underlying challenges facing the US have yet to be resolved completely, most notably the forthcoming spending cuts by government. Risks and uncertainties from the advanced economies continue to pose downside risks to emerging market economies, through trade and financial market channels.

11. **Growth in Namibia is expected to slow somewhat in 2013, in line with its key trading partners, although growth of domestic demand may remain strong, while elevated imported inflation may persist**. Construction activity is likely to remain buoyant, while growth of the primary industry may recede on account of limited growth of mineral exports. January inflation reflected international commodity price increases and internal annual administered price increases. Over the next few months, however, major factors influencing prices are likely to be more weighted towards external price increases than internal factors. Moreover, credit extended to

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households have lessened somewhat over recent months, while the majority of credit extension growth has accrued to businesses, which are generally seen to put credit to more productive uses than households. Finally, growth in instalment credit (largely non-productive credit), decelerated in the last quarter of 2012. This is a welcomed development; however, credit extension will be monitored on a continuous basis.

12. It is against this backdrop that the MPC continues to hold the view that the current low interest rate environment should be maintained in order to ensure that growth is supported in the local economy going forward, and to mitigate, as far as possible, the impact of the slowdown in growth seen in many of our trading partners. To this effect, the MPC resolved to keep the Repo rate unchanged at the current level of 5.50 percent.

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