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

Ref. 9/6/2

21 April 2010

PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

The Global Economy

1. Since the last meeting of the Bank's Executive Committee in February 2010, economic indicators confirmed that the global economic recovery continues to gain momentum. However, the recovery remains sluggish in most advanced economies, mainly on account of high unemployment rates, while some emerging and developing economies recorded robust growth. In this regard, the US real GDP rose to an annualised 5.6 percent in the fourth quarter of 2009. The acceleration in US growth reflected a strong contribution from inventory investment and increased consumer spending. On the other hand, the UK, Japan and Euro zone recorded negative growth rates of 3.1, 1.4 and 2.2 percent, respectively, in the fourth quarter of 2009. Going forward, the real GDP in these economies is expected to improve moderately in 2010 mainly on account of the more encouraging global economic outlook.

2. Emerging markets are recovering more rapidly than most developed economies, with Asia spearheading the upturn due to both large stimulus programmes and increased demand for exports. The latest monthly data show substantial increases in exports, albeit from a low base. China's economy is growing particularly strong recording growth of 10.7 percent in the fourth quarter of 2009. South Africa also posted a growth rate of 3.2 percent during the fourth quarter of 2009, while Brazil and Russia seem to remain stuck in the recession.

3. Global production and trade has bounced back strongly since the second half of 2009, while the confidence in the financial market recuperated. Moreover, commodity and mineral prices continued with their strong rally, supported by stronger demand from the US, China and India. These developments were primarily a result of the extraordinary amount of policy stimulus and the unexpected strength in the US consumption. As a result, real GDP for most economies during the fourth quarter of 2009, pointed towards a rebound in global growth. The outlook for the financial markets remains cautious, although the rescue package for Greece will likely restore confidence in the financial markets.

4. Monetary policy for most economies has been highly expansionary, with most central banks in the advanced and emerging economies maintaining interest rates at record low levels to stimulate demand. In contrast, Australia and India hiked their interest rates during their latest meetings in March. With the exception of China and India, global inflationary pressures remained low as a result of spare capacity. While uncertainty regarding the sustainability of the global growth remains, the downside risks to the global outlook are broadly balanced.

The Domestic Economy

5. Since the last EC meeting, the performance of the Namibian economy continued to improve, although it remains fragile. In this regard, positive performance was observed in most activities within the primary industry, such as livestock farming, and zinc and diamond mining. In the secondary industry, the output of refined zinc and blister copper and the value of building plans approved rose while that of building plans completed declined. Furthermore, wholesale and retail trade and communications sectors in the tertiary industry performed well, with new vehicles sales rising by 14.2 percent on a monthly basis in March 2010.

6. With regard to price developments, inflationary pressure continued to ease. In this connection, the annual rate of inflation slowed from 6.3 percent in February to 5.6 percent in March 2010. This slowdown was mainly attributed to lower inflation rates for major categories, such as food, transport and furnishings. Year-on-year, the overall annual inflation rate was lower by half of the 11.2 percent recorded during the corresponding month of the previous year.

7. Domestic demand moderated as reflected in the slower growth in credit extended to the private sector. This was mainly driven by credit extended to businesses, which slowed year-on-year by 11.6 percent in February 2010. The deceleration in credit extension to businesses was mainly attributed to slower expansion in overdrafts. However, credit extended to individuals improved, growing at an annual rate of 7.1 percent at the end of February from 6.3 percent over the same period. These developments resulted in the overall growth in total credit extended to the private sector to moderate on an annual basis by 8.7 percent at the end of February, lower than the 10.6 percent recorded at the end of January 2010. Going forward, domestic demand is expected to pick up on account of improved confidence and financial position of both individuals and businesses.

8. The fiscal position remained fairly strong, as the proportion of domestic debt to GDP declined slightly to below 10.0 percent at the end of March 2010. This rate was far lower than the 12.4 percent recorded at the end of the same month of 2009. This was due to the redemption of the GC10 Government Bond in January 2010, coupled with relatively low borrowing in the form of treasury bills. With regards to the external sector, exported values for most commodities increased on the back of improved global demand. Moreover, international reserves remain sufficient to maintain the currency peg as it stood at N$12.9 billion at the end of March 2010. However, the Executive Committee expects some pressure on the balance of payments

I.V

resulting from stronger domestic demand and lower SACU revenue inflows, which should reduce the level of international reserves going forward.

Monetary Policy Stance

9. Following an in-depth review of the recent economic developments, the assessment of the Executive Committee is that the Namibian economy continues to exhibit clear signs of recovery in line with the improved global economic outlook. Most real sector indicators show improved performance. Furthermore, supported by the stronger local currency and lower food price rises, the inflationary pressures have declined somewhat. Going forward, uncertainty remains on the inflation outlook coming from exogenous factors, such as non-food commodities including crude oil, as well as possible increases in administered prices. While the current level of international reserves is more than adequate to support the currency peg, some downward pressure is expected in future. Taking these developments into account, the Executive Committee has decided to leave the repo rate unchanged at 7.0 percent per annum. As usual, the Executive Committee will continue to closely monitor both the international and domestic economic developments and will take appropriate policy decision as the conditions so demand.

Ipumbu Shiimi
GOVERNOR