Bank of Namibia

Ref. 9/6/2 **15 April 2009**

PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

1. The Executive Committee (EC) of the Bank of Namibia met on 14 April 2009 to formulate the monetary policy stance for the next two months.

2. Since the previous monetary policy meeting of the EC, there has been a further deterioration in global economic activities. The International Monetary Fund now estimates that the global economy will contract by between 0.5 percent in 1.0 percent in 2009. Other commentators are of the view that the global economic contraction could even be deeper. This will be the first global economic contraction since the Second World War. Growth in emerging market and developing country economies is also expected to slow down more than previously estimated. Since the previous EC meeting there has been some stabilisation in commodity markets, and in some instances a moderate recovery. Nevertheless, in line with weak global economic activity, commodity and financial markets generally remain depressed. Namibia's key primary sector exports, most notably diamonds, continue to be adversely affected by the depressed global economic conditions. In this connection, the latest projection by the Bank of Namibia shows that real GDP growth will decelerate to only 0.4 percent in 2009.

3. The annual rate of inflation remained unchanged at 11.6 percent in January and February 2009, reflecting stabilization in most categories in the consumption basket. Although international food prices have started to abate, the annual rate of domestic food price inflation remained at an uncomfortably high level of 16.1 percent in February. While the rate of increase has

decelerated among some food items, such as bread, milk and oils, others, such as meat, vegetables and sugar, continued to display an upward trend. It is expected that the recently announced zero rating of VAT on additional food items, will somewhat ease price pressures from food. In the longer run, it is expected that it will take a while for the decline in international food prices to filter through to the retail level in Namibia. However, regional shortages of maize and a volatile and depreciating currency present a risk to the inflation outlook in particular with respect to food prices. Transport inflation, the other key driver of overall inflation, moderated further to 9.5 percent in February. However, with the recent increase in the pump prices of petrol and diesel and those announced for Thursday this week, this development could be short-lived. Overall, however, the EC expects that, in the medium term, inflation should continue its downward trajectory mainly on account of a rapidly slowing world economy.

4. With respect to other domestic economic indicators, it is now expected that there will be a further contraction of activity in the mining sector, mainly owing to a less favourable outlook for diamond mining. This is directly linked to the deeper than projected contraction of the world economy that led to a rapid decline in the demand for commodities. While the tourism sector still did well in the fourth quarter of 2008, it is expected that due to the deep global slowdown, the number of tourist arrivals would decline or at best remain unchanged in 2009. Other domestic demand indicators, such as credit extended to the private sector, vehicles sales, transport, and construction, showed mixed results since the last EC meeting in February. Regarding monetary and financial developments, the annual growth rate of credit extended to the private sector slowed to 9.9 percent in February from 11 percent in the previous month. The decline was mainly reflected in growth of credit to individuals falling to 8.1 percent, while credit to businesses increased by 13.3 percent on an annual basis. The expansion of collateralized credit, which is dominated by mortgage and motor vehicle credit, slowed to 10.4 percent in February from 10.8 percent in January. Thus, overall domestic credit conditions remain relatively constrained. On an annual basis, total vehicles sales declined by 8.4 percent during the month of February. On the

other hand, the number of building plans approved and buildings completed increased by 20.9 percent and 47.7 percent, respectively during the month of February. This was supported by an increase in cement imports, which rose 42 percent, year-on-year, during March.

5. Notwithstanding the sideward movement and relatively elevated level of the inflation rate in February 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, there has been a further improvement in liquidity conditions in the banking system, with no undue or detrimental outflow of capital. Although international reserves declined moderately to N$13.8 billion at the end of March 2009, it is still regarded as more than sufficient to support the currency peg.

6. Taking into consideration both the international and domestic economic conditions, the EC is of the view that a further round of monetary policy easing was 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 a further 100 basis points to 8.0 per cent with effect from 16 April 2009. During this time of the global economic crisis, economic conditions change rapidly. The Bank will therefore continue to monitor domestic and international economic developments and will not hesitate to take the necessary actions to further stimulate economic activity, to defend the peg, and to ensure financial stability should conditions so demand.

Tom K. Alweendo
GOVERNOR