REF. 9/6/2 **11 October 2007**

PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

1. Introduction

The Bank of Namibia held its monetary policy meeting on 10 October 2007 to consider its monetary policy stance to be pursued over the next two months. In doing so, the Bank assessed current inflation trends and evaluated recent domestic and international developments. While the Bank remains concerned about the high rate of inflation in the country, there are encouraging signs as witnessed in the recent moderation in the inflation rate. This moderation could mainly be attributed to a decrease in transport inflation, although food price inflation continues to put upward pressure on the overall price level. It is reassuring to note that even when transport inflation is omitted from the consumer price index, the remaining inflation components started to depict a downward trend, suggesting a moderation in over all demand conditions. Nevertheless, the Bank remains concerned about the upside risks to inflation due to volatility in the international fuel prices and uncertainties with regard to the food price outlook. In this connection, the policy focus of the Bank of Namibia continues to ensure price stability in support of overall growth and development.

2. Developments in the Real Sector

Developments in the global economy remain relatively satisfactorily with strong growth during the first half of 2007 on the back of robust performance in major emerging market economies, notwithstanding the recent turmoil in the financial markets. There has been a shift away from the US as the key driver of global economic growth, with the major emerging market economies, such as Brazil, Russia, India, China and South Africa (BRICS), estimated to account for more than half of global output in 2007. The US economy picked up pace in the second quarter of 2007, largely due to higher government consumption, inventory and non-residential investments in contrast to lower residential investments and private consumption that cooled down. The developments in the US housing market are expected to negatively influence private consumption and residential investment, going forward. The Euro-zone growth – although lower than expected – was supported by higher export earnings and expenditure on investment. Japan, on the other hand, recorded weaker growth due to a slowdown in private consumption and private residential investment. Developing and emerging markets, nevertheless, continue to display solid growth on the back of ongoing strong performance of China and India. The South African economy continues to remain robust, with a real GDP growth rate of 4.5 during the second quarter of 2007, albeit slightly lower than the 4.7 percent recorded in the first quarter of 2007. It was also observed that metal prices, such as copper and zinc, have started to weaken in recent months, suggesting that global growth could slow down in 2008. It is also not clear how the recent turbulence in financial markets would impact on global growth. In addition, high oil prices and commodity prices related to bio-fuels will continue to pose an upside risks to the global inflation outlook.

The Namibian economy continues to perform satisfactorily and there has been a noticeable slowdown in domestic demand indicators, such as vehicles sales, building plans passed and completed, and bank credit extension to the private sector. Available sectoral indicators point to a mixed growth performance, compared to what was reported at the last meeting, as some sectors were doing well whilst others performed disappointingly. The construction; transport and communication; and financial intermediation sectors, in particular, performed exceptionally well during the second quarter of 2007. Other sectors, such as agriculture, hunting and forestry, as well as electricity and water also displayed robust growth, albeit at lower rates than in the preceding quarter. The growth in the mining and quarrying sector slowed more significantly as reflected in a decline of output growth during the second quarter relative to the first quarter. This is also evident in the hotels and restaurants category, which showed a significant slowdown in real growth. In addition, the wholesale and retail trade sector also continued to reflect prevailing market conditions by displaying slower growth.

3. Credit Extension to the Private Sector

Growth in credit extended to the non-government sector continued to display a downward trend. For instance, the annual growth rate in credit extension to the non-government sector slowed from 13.4 percent at the end of June 2007 to 12.4 percent at the end of August 2007.

The downward movement in the growth of credit extension was reflected in credit extended to both businesses and individuals. The annual growth in credit to businesses at the end of August was 9.7 percent, while that for individuals stood at 13.9 percent. The corresponding rates for June 2007 were 10.1 percent and 15.2 percent, respectively. It is worth noting that growth in mortgage credit decelerated to a rate of 21.9 percent during August 2007, from 26.5 percent recorded in June 2007. Growth in credit to other asset-backed categories, such as vehicles sales, also slowed in the month of August. Additionally, growth in instalment credit also slowed from 9.3 percent in June 2007 to 8.3 percent in August 2007. In line with the decelerated growth in credit extension, the downward trend in the growth of other demand indicators continues, such as the lower number of new vehicles sales, for which growth slowed to a monthly rate of 3.6 percent and an annual rate of 1.5 percent during August 2007. The comparative rates in July were 4.2 percent and 3.1 percent, respectively.

4. Inflation Developments

Since the monetary policy meeting held in August this year, inflation has moderated to 6.7 percent in September form 6.8 percent in August and from 7.2 percent in July, which could be attributed to the tight monetary policy stance pursued since the middle of last year.

The moderation in inflation was mainly due to the decline in transport inflation, which decelerated from an annual rate of 7.2 percent in July 2007 to 4.8 percent in September 2007. This could largely be attributed to the categories "operation of personal transport equipment" and "public transportation services", which substantially declined from annual rates of 12.5 percent and 8.5 percent in July 2007 to 6.6 percent and 0.7 percent in September, respectively. Food price inflation, however, continues to put pressure on the consumer price index fuelled by a combination of factors including by the increased demand for bio-fuels, the general increase demand for food from rapidly growing emerging markets and adverse supply shocks resulting from unfavourable weather conditions.

The persistent high and volatile international oil price continues to be a worrying factor that drives inflation in a number of net oil-importing countries, including Namibia. The renewed hope in the growth prospects of the US and the upcoming winter season, as well as the demand expectations in the US, following a crude oil inventory decline, has resulted in the international price of crude oil hovering around US$82 per barrel for the month of September 2007. It is, however, worth noting that domestic pump prices are not likely to increase within the short-term. Thus, more price pressure is not expected from this component in the short-term.

The South African Production Price Index (PPI), being a leading indicator for consumer price inflation in both South Africa and Namibia, showed a moderation of 9.4 percent during August 2007 compared with the 10.3 per cent during the preceding month, notwithstanding the pressure from agricultural food prices. Despite the slowdown in the last couple of months, the PPI continues at disturbingly high levels and, therefore, remains a threat to future inflation. The PPI, and its concomitant impact on CPI, is expected to increase due to volatile oil prices and an expected increase in food prices.

Having considered the latest inflation developments, forecasts and expectations, the Bank of Namibia considers the risks to the outlook for inflation in the short term to continue to remain tilted to the upside. Inflationary pressures are persisting, largely on account of volatile crude oil prices and food prices. Seasonal factors, such as increased household spending and increase in school fees, also pose a threat to inflation for the fourth quarter of 2007 and the first quarter of 2008, respectively.

5. Monetary Policy Stance

The risks to inflation from the demand side have considerably moderated over the last few months, as was witnessed by the slowing growth in private sector credit extension and lower vehicles sales. Nevertheless, rising food prices and international oil prices continue to pose major risks to the domestic inflation outlook. In general, the risk to growth seems to be balanced, although risks to inflation are weighted slightly on the upside in the short term. On balance, therefore, it appears as if an increase in the Bank rate at this stage could run the risk of unnecessarily depressing domestic demand, which may hinder real sector growth. However, in view of the need to maintain orderly capital and money markets within the Common Monetary Area and the decision by the South African Reserve Bank to increase their repo rate, the Bank of Namibia decided to increase the Bank rate by 50 basis points from 10.00 per cent per to 10.50 per cent per annum, effective 12th October 2007.

Tom K. Alweendo
Governor