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Media statement

Monetary Policy statement by the Bank of Namibia

1. The Monetary Policy Committee of the Bank of Namibia held its monetary policy meeting on the 21st of February 2012 to deliberate on the monetary policy stance for the next two months. The Committee reviewed the global and domestic economic developments since the last meeting held on the 6th of December 2011.

Global economy

2. Since the last MPC meeting, the pace of global growth is estimated to have slowed further as reflected in the available real GDP growth rates across regions. The slowdown was underpinned by the sovereign debt problem in the Euro Area, fiscal challenges in the US, as well as modest corporate and public spending in Japan. The persistently high unemployment rates and stagnant income growth, especially in the developed countries, is expected to further undermine recovery.

3. Real GDP in the US grew by 1.6 per cent in the fourth quarter of 2011, compared to 1.5 per cent in the preceding quarter. This growth was largely sourced from the rise in private investment, personal consumption expenditures (PCE), exports and fixed investment. Despite tentative signs of improvements in the labour market since October 2011, the high unemployment rate remains a hindrance to economic growth. Real GDP growth in the UK improved to 0.7 per cent during the fourth quarter of 2011 from 0.5 per cent during the preceding quarter on account of improved performance of the manufacturing and construction sectors.

4. In the Euro Area, conditions remained subdued due to weakened financing conditions and falling confidence as a result of problems in the sovereign debt markets of some EU member states. Consequently, real GDP growth in the Euro Area moderated to 0.7 per cent in the

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fourth quarter of 2011 compared to 1.3 per cent in the preceding quarter. Further, adverse effects on growth were exerted by slowed exports from Germany and France. Over the same period, the Japanese economy contracted by 1.0 per cent, worse than a contraction of 0.5 per cent in the third quarter of 2011.

5. Economic activities in the emerging market economies remained weak mainly as a result of a moderation in export volumes due to suppressed global demand. In this context, growth in China weakened to 8.9 per cent in the fourth quarter compared to 9.1 per cent during the third quarter. This slow growth was largely underpinned by lower exports to Europe and the US. In an effort to further support growth and boost liquidity, China loosened the commercial banks' reserve requirement ratio by 0.5 percentage points during February 2012.

6. The MPC noted that in line with the suppressed global growth, most central banks continued to pursue accommodative monetary policy stances. On the financial markets front, the performance of global equity indices improved mainly in response to policy efforts to contain the EU sovereign debt crisis, coupled with upbeat company earnings in the US during the fourth quarter. Nonetheless, the volume of trade in the global financial markets remains low signalling continued uncertainties.

7. The global economic environment remains that of heightened uncertainty stemming from, amongst others, high unemployment rates, stagnant growth of incomes, increased concerns about fiscal sustainability as well as bank funding pressures in the Euro Area. These together could depress demand to varying magnitudes in various advanced economies, thereby resulting in sizable moderations in global output growth, going forward.

The domestic economy

8. During 2011, the performance of the real sector was frail, driven by weaknesses in the primary industry, although the secondary and tertiary industries were upbeat. As a result of these developments, economic growth in Namibia is estimated to have slowed to 3.8 per

cent in 2011 from 6.6 per cent in 2010. The slowed growth reflects weaknesses in the mining sector, which incurred production losses due to prolonged industrial actions, flooding at the mines and logistical constraints. The construction, wholesale and retail trade, tourism, communications and transport sectors; however, recorded positive growth during the year.

9. On the price developments front, the annual inflation rate for all items accelerated to 7.2 per cent in December 2011, from 6.0 per cent in the preceding month, before subsiding to 6.6 per cent in January 2012. The slowdown in annual inflation during January 2012 was consistent with moderation in inflation rates in the categories of *housing, water, electricity, gas and other fuels; transport, miscellaneous goods & services; clothing and footwear;* and *health.*

10. MPC noted that growth in credit extension to the private sector (PSCE) continued to slow at the end of December 2011. In this regard, growth in PSCE slowed to 9.8 per cent from 10.6 per cent at the end of the preceding month. This development reflects moderation in credit advanced to the corporate sector while that to individuals remained robust. Nevertheless, private sector credit remained strong in 2011, recording an average growth rate of 11.3 per cent.

11. On the fiscal front, Government debt level as a percentage of GDP rose to 26.8 per cent at the end of December 2011, reflecting increases in both external and domestic borrowings. The increase in government borrowing reflects the on-going government efforts to tackle social challenges such as unemployment and poverty. Nonetheless, the sovereign debt level remains one of the lowest in the world and is still within the Government debt target of 30.0 per cent of GDP.

12. In line with slowed mineral production during 2011, the earnings from key mineral exports decreased in contrast to the preceding year. Similarly, earnings from livestock exports also moderated. At the end of December 2011, the stock of foreign reserves decreased by 3.0 per cent to reach N$14.5 billion. The level of foreign exchange reserves, however, remains adequate to sustain the currency peg and meet the country's short term external liabilities.

Monetary Policy Stance

13. From the review of the recent economic developments, the MPC is of the view that global growth continues to slow and is surrounded by uncertainties for the near term outlook. The sovereign debt concerns, high unemployment rates and stagnant income growth continue to suppress business and consumer confidence, going forward. In the domestic economy, growth slowed during 2011 on account of lower activities in the primary sector, although the fundamentals continue to be firm. The elevated risks to global growth, however, have consequences for the domestic economy in light of the trade linkages and openness of the Namibian economy.

14. The MPC further took account of the heightened core inflation outcomes, despite a slowdown in the headline inflation rate. These underlying inflation pressures are mainly of a cost push nature and future developments in this regard will be monitored vigilantly. The MPC also noted that credit developments remained positive which augurs well for the domestic economy.

15. In view of the need to ensure a sustained growth in the domestic economy, the MPC is of the view that a tightening of the monetary policy stance at this stage might be premature and thus detrimental to the growth prospects. In light of the above, the MPC decided to leave the Repo rate unchanged at 6.00 per cent. The Bank of Namibia will continue to monitor developments closely and respond timeously in order to defend the currency peg and ensure price stability.

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