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MEDIA RELEASE STATEMENT

Monetary Policy statement by the Bank of Namibia

1. The Monetary Policy Committee (MPC) of the Bank of Namibia held its monetary policy meeting on the 21st of August 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 19th of June 2012.

GLOBAL ECONOMY

2. **Since the last MPC meeting, economic indicators in developed economies point to continuous weakening of economic growth and heightened uncertainties, especially in the Euro zone.** Economic growth in the U.S. remains elusive, with the economy slowing down in Q2-2012, with respect to Q1-2012. Japan has shown some recovery in economic activity, although the leading indicators are far from providing a clear trend for the economy. Real GDP in the Euro Area declined by 0.4 percent on the back of the sovereign debt crisis and weak performance by the manufacturing sector. Similarly, economic growth in the UK contracted further in the second quarter of 2012 on account of declined activities in manufacturing, construction, and the service sectors. In the emerging market economies, economic activities also moderated. In this context, real GDP growth for China slowed to 7.6 percent in the second quarter of 2012 due to a slowdown in manufacturing sector activities, investment, and exports.

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3. **Looking ahead, the IMF expects global growth to moderate to 3.5 percent in 2012 from 3.9 percent in 2011 before increasing to 3.9 percent in 2013.** Growth in advanced economies is projected to slow to 1.4 percent in 2012, underpinned by the spill over effects of weaker economic activities in the Euro Area periphery. Growth in emerging and developing economies is predicted to moderate to 5.6 percent in 2012 due to weak global growth. The downside risks to the outlook remain high and entail: delayed or insufficient policy action, which will further escalate the Euro Area crisis as well as the envisaged fiscal tightening in the United States, given the recent political gridlock. If these risks materialises global growth could weaken further in 2013.

4. **Commodity prices for copper, uranium and zinc decreased in June 2012 underpinned by the referred global economic slowdown and, thereby, sluggish demand.** In contrast to other metals, the price of gold increased, largely reflecting increased demand of this safe haven commodity. On the financial markets front, events in the Eurozone continued to set the trends in global stock markets throughout June 2012, despite slightly improved investors' sentiments as expectations of a comprehensive solution to the sovereign debt crisis increased. To this effect, equity markets indices in developed economies as well as emerging market economies produced some gains during the period, although the trade volumes remain thin.

5. **The Purchasing Manager Indices (PMIs) for most of the advanced and emerging economies dropped below the benchmark level of 50.0 during June/July 2012.** In general, these declines in PMIs were attributed to weak world trade conditions and overall economic uncertainties. South Africa's PMI declined by 10.1 percent due to restrained growth of domestic demand, weakening export performance, and overall uncertainty characterising the global economy. Also, China's PMI remained below the benchmark level of 50.0, although it increased mildly in July 2012 as a result of a reduction in input costs of manufacturing businesses, especially raw materials and fuel. The Composite Leading Indicators (CLIs) for most of the advanced and emerging markets have performed weakly in recent months, with central banks in most advanced and emerging economies

countering the situation with accommodative monetary policy stances. This again points to lacklustre economic activities in the world.

DOMESTIC ECONOMY

6. **Recent and prospective developments of the Namibian economy remain strongly connected to developments in the world economy, which is characterised by increased uncertainties.** Domestic inflation trends will likely reflect temporary hikes with international food and energy prices, although the overall inflation rate is expected to remain within single digits over the medium term. On the other hand, a slowdown of external demand is likely to put pressure on export earnings and overall GDP growth going forward, notwithstanding some positive developments observed during the first half of this year.

7. **The Namibian economy performed slightly better during the first half 2012 compared to the corresponding period of last year, although some leading indicators suggest a moderation of economic growth going forward.** During January-June 2012, performance of the ***primary industry*** was largely driven by increased mineral production that compensated for weaknesses in the agricultural sector. The observed growth in the ***secondary industry*** was mainly driven by the construction sector (as reflected in increased values of buildings completed and building plans approved), although the manufacturing sector posted some mixed results. The ***tertiary industry*** displayed a solid performance as the number of new vehicles sold, rail and road freight, as well as cargo volumes increased during the period. Looking to the future, growth in the wholesale and retail trade sector, however, appears to be fading, thereby auguring a more subdued economic environment and export performance than during the first half of the year.

8. **The declined trend in domestic inflation recorded through June was reversed in July 2012.** The year-on-year inflation rate rose to 6.0 percent in July 2012 from 5.6 percent in June 2012. The increase in the inflation rate largely reflected higher inflation rates for *food and non-alcoholic beverages* and *housing, water, electricity, gas and other fuels*. Increased inflation rates for these categories mirrors recent price hikes for food items and administered prices that were implemented in July 2012.

Looking ahead, the inflation environment is expected to remain benign, though some upside risks lingers on account of looming higher international oil and food prices. A possible appreciation of the Namibia Dollar may, however, counter some of the inflationary impact stemming from the referred pressures.

9. **On the monetary front, broad money supply (M2) increased at the end of June 2012 mainly on account of increased domestic claims.** The annual growth in M2 was 14.8 percent at end-June 2012, compared to 12.7 percent at end-May 2012. In turn, growth in credit to the private sector remains strong, although it moderated to 12.2 percent from 12.8 percent over the same period. In terms of credit categories, the moderation was mirrored in mortgage advances as well as instalment credit. Growth in instalment credit, nonetheless, remains robust at 18.0 percent in line with the positive momentum contained in vehicle sales. The rapid and sustained expansion of consumer loans, including instalment credit and overdraft facilities, remain a concern for the MPC as it may crowd out funding for more productive activities and put unwarranted pressure on the country's international reserves. . The Bank will continue to monitor the growth in instalment credit and act accordingly when necessary.

10. **The Government's fiscal position remained fairly strong, mainly on account of large SACU revenue inflows during the current fiscal year.** The ratio of Central Government debt to GDP increased marginally from 25.0 percent of GDP at end-March to 25.9 percent at end-June 2012, well within the 35.0 percent threshold. The increase in government debt is largely in coherence with the prevailing expansionary fiscal policy.

11. **The performance of the external sector with respect to the mineral subsector, in particular, was satisfactory during the first half of 2012.** The favourable performance of the mining subsector was largely driven by significantly higher export receipts on diamonds and gold, while export earnings from other minerals (uranium, zinc, and blister copper) declined. Nonetheless, the export earnings from diamonds dropped significantly in June on account of declining international demand for gems. Looking at this development in light of weakening external demand, there are indications of a deceleration in mineral export revenues, going forward. The stock of foreign reserves stood at N$14.4 billion at end-June 2012.

This represents increases of 3.5 percent, month-on-month, and 31.2 percent year-on-year. The aforesaid foreign reserves stock level was 8 times higher than the currency outside the depository corporations and remains adequate to sustain the peg arrangement.

MONETARY POLICY STANCE

12. In light of these developments, the MPC is of the view that the medium-term outlook continues to be shadowed by heightened uncertainties. These elevated risks to global growth have potential spill over effects for the domestic economy in light of the trade linkages and openness of the Namibian economy. The MPC further noted the rising inflationary pressures, but concluded that inflation will still remain within tolerable ranges for the foreseeable future. Meanwhile, the stock of official foreign reserves remains sufficient and augurs well for supporting the currency peg.

13. In view of the above, the MPC finds that a measure of monetary policy easing is necessary to support the ailing sectors of the economy and further shore up the subdued growth outlook. To this effect, the MPC resolved to reduce the Repo rate by 50 basis points to 5.50 percent effective from 23 August 2012. The MPC remains concerned about rapid growth in consumer credit extension and thereby underscored its readiness to implement targeted policy actions, in the event of renewed pressures on the country's external position. The MPC will continue to monitor developments in both the domestic and global economies, and react appropriately in line with its mandate.

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