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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 6th of December 2011 to consider its monetary policy stance for the next two months. The Committee reviewed the global and domestic economic developments since the last meeting held on the 25th of October 2011.

Global economy

2. Since the last MPC meeting, the global economy appears weak and fragmented. Key sources of the weakness in the global growth, amongst others, continued to be the on-going sovereign debt crisis in the Euro Area, fiscal and labour market challenges in the US, and capacity constraints in Japan following the tsunami in March 2011.

3. In the US, real GDP growth remained unchanged at 1.6 per cent during the third quarter of 2011. The main source of this low growth rate was mainly the lack of sustained upturn in the labour and real estate market. The current unemployment figures, however, showed an improvement from 9.0 per cent to 8.6 per cent.

4. In the Euro Area, conditions remained subdued, with consumer and business confidence having fallen in recent months. The unemployment rate had risen by 0.1 percentage point to 10.3 per cent in October 2011. Moreover, growth appears to have slowed in Germany and France, the two largest economies that had driven the European recovery since 2009. As a result, during the third quarter of 2011, real GDP growth in the Euro Zone moderated to 1.4 per cent from 1.6 per cent in the second quarter of 2011.

5. Growth in the emerging market economies turned sluggish following the general tightening in macroeconomic policies, as well as subdued growth in the advanced economies. The poor growth in the advanced economies affected export volumes and values from the emerging market economies. China's real GDP growth moderated to 9.1 per cent in the third quarter from 9.5 per cent during the second quarter of 2011, partly in response to monetary policy

tightening, which was aimed at containing inflationary pressures. Similarly, India's growth moderated to 6.9 per cent during the third quarter from 7.7 per cent in the preceding quarter on account of subdued performance in the mining and quarrying as well as manufacturing sectors. Likewise, real GDP growth in South Africa slowed to 3.1 per cent in the third quarter of 2011 from 3.2 per cent in the second quarter of 2011.

6. Global financial markets in the third quarter of 2011 were influenced by rising expectations that the Euro debt crisis could worsen. Global equity markets, however, rebounded following the decisive measures agreed by the European leaders to resolve the Euro debt crisis.

7. On the monetary policy front, the MPC noted that the monetary policy stance in advanced economies generally remained accommodative. Meanwhile, all emerging market economies, with the exception of Russia and South Africa, started pursuing less accommodative monetary policies. The varying policy stances therefore indicate divergent policy priorities that exist among these economies.

8. The risk to global economic outlook remains unchanged since the last MPC meeting in an environment of heightened uncertainty. The downside risks relate to the weak sovereign balance sheets in Europe, high unemployment and lacklustre activities in the real estate market, especially in the Euro Zone and the US.

The domestic economy

9. The year-to-date performance of economic indicators in the primary sector in Namibia remain subdued. In this regard, the output volumes of both diamonds, gold, uranium and zinc concentrate were lower in comparison to the preceding year. In the secondary industry, however, manufacturing activities, and other indicators in the construction sector were upbeat in contrast to last year. With regard to the tertiary industry, improved performance was reflected in the increased turnover of the wholesale and retail trade sector; higher cargo volumes handled by the transport sector and improved activity in the tourism sector. Overall, the performance of the real sector was satisfactory, despite the weak growth in the mining sector.

10. Inflation increased to 6.1 per cent in October 2011 from 5.3 per cent in the previous month. The rise in the overall rate was in line with increased inflation rates in the categories of *food and non-alcoholic beverages*; *transport*; *clothing and footwear; furnishings*; and *recreation & culture*. The 6.1 per cent inflation rate is the highest recorded for Namibia since February 2010. Going forward, inflation is expected to remain moderate.

11. The growth in private sector credit extension (PSCE), slowed to 10.0 per cent at the end of October 2011 from 11.2 per cent at the end of the previous month. This suggests that the domestic demand may have waned a bit. The slower growth in credit extended to the private sector was particularly discernible in business sector, while credit extended to individuals continued to strengthen.

12. On the fiscal front, the fiscal position in terms of Government domestic debt as a ratio to GDP remained stable, despite the increase to 16.4 per cent at the end of November 2011 from 15.9 per cent at the end of October 2011. The increase in total domestic debt was reflected in both Treasury Bills and Internal Registered Stock.

13. Moving to the external sector, most of the key mineral exports displayed bleak performance during October 2011, mainly due to logistical constraints and limited stock intake. A similarly disappointing picture was visible in livestock exports, which have been adversely affected by seasonal factors coupled with an export ban in two regions aimed at containing the spread of the foot-and-mouth disease.

14. Notwithstanding the weak exports, the stock of foreign reserves increased by 11.0 per cent to N$11.9 billion at the end of October compared to the level recorded at the end of September 2011. This level is more than adequate to maintain the peg and is above the international benchmark of 3 months of import cover.

Monetary Police Stance

15. Following a comprehensive assessment of the most recent global and domestic economic developments, the MPC is of the view that global economic growth has slowed down noticeably. Global financial markets have shown increasing signs of stress, in both advanced and emerging market economies. The domestic economy continues to grow at a slow pace, particularly in the primary sector. MPC also noted the recent rise in inflation, which was brought about by the rise in prices in specific consumer goods and services.

16. Against this background, the MPC decided to maintain the repo rate at its current level of 6.00 per cent with a view to continue supporting the weak recovery of the domestic economy. Given the persisting uncertainties as a result of the Euro Zone debt crisis and fragmentation in global economic growth, the MPC is, therefore, committed to closely monitor these developments and take the necessary actions should this be required.

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GOVERNOR