REF. 9/6/2 **10 April 2008**

PRESS STATEMENT

Monetary Policy Statement by the Bank of Namibia

The Global Economic Outlook

1. Since the last monetary policy meeting, there has been a further deterioration in the outlook of the international economy mainly stemming from the sub-prime mortgage market fallout in the US economy. In this connection, there are real fears that the US economy could be heading for a recession, if it is not already in a recession. Given the extent and fast pace of financial globalisation, other regions of the world will not be spared should there be a significant downturn in the US economy. Already the contagion effect of the sub-prime market fallout has been felt in other regions, most notably the Euro-area and Japan that has large exposure to the sub-prime market.

2. Moreover, fears of a recession in the US economy has since the beginning of the year put tremendous pressure on the stock market performance of the export oriented and dynamic fast growing Asian economies, including China. For instance, year to date stock markets in that part of the world has shed between 13 and 15 percent of their stock market values. Consequently, growth in these countries has also been trimmed down in line with weaker anticipated export performance. As a result of these developments, the IMF in

its latest outlook has revised its global growth forecast for 2008 down to 3.8 percent from its earlier forecast of 4.1 percent at the end of last year.

3. While the CMA region has been relatively insulated from the direct effects of the sub-prime crisis, it is plausible going forward that due to slower growth of the world economy, these countries could be growing at a slower pace than under normal circumstances. In the CMA region, the risk to the outlook is further exacerbated by higher inflationary pressures and regional power shortages. Fortunately, commodity prices that determine to a large extent the growth in these economies have been holding up, albeit in part due to supply side constraints.

Recent Inflation Developments

4. Regarding the Namibian economy, inflation has continued its upward trend since the last monetary policy meeting in January. The annual rate of inflation increased moderately from 7.8 percent in January to 7.9 percent in February 2008. The main sources of inflationary pressures continued to be food and transport prices. However, even if food and transport inflation are excluded the annual rate of inflation shows an increasing trend, thus confirming the presence of second round effects.

5. Food prices increased at an annual rate of 15.6 percent in February from 15.0 percent in January, while transport inflation remains relatively high at 7.5 percent during February 2008. The higher transport inflation is directly related to the increase in fuel prices and in the cost of public transport during the month of February. With respect to food price inflation, the bulk of upward pressure came from items such as milk, cheese and eggs, oils and fats, vegetables, including potatoes and other tubers, which on an annual basis increased in excess of 20 percent in the month of February. The sharp rise in food price inflation is related to a confluence of three factors, namely the switch to planting crops for bio-diesel consumption, adverse climatic conditions and increasing demand of protein in fast growing economies, like India and China. With the exception of adverse climatic conditions, these factors are not likely to reverse in the near future and it is expected that they

will continue to put upward pressure on food prices worldwide. It is therefore expected that food inflation will remain high, at least for the remainder of the year.

6. It was also noted that there was a sharp jump in education inflation to 16.0 percent in February 2008 from 6.0 percent one year earlier. This is mainly due to the annual adjustment of school fees in the month of January.

Developments in Demand Indicators

7. Despite the moderate rise in inflationary pressure, available demand indicators, such as private sector credit extension, and number of vehicles sales, show that domestic demand continues to be subdued in part due to tightened monetary conditions.

8. Growth in private sector credit extended by local banking institutions eased from 15.5 percent in February 2007 to 11.3 percent in February 2008. The slowdown in private sector credit growth was mainly reflected in credit extended to individuals, whilst credit extended to businesses showed an increase during the same period. At an annual rate, growth in credit extended to individuals slowed to 9.2 percent at the end of February 2008 from 17.3 percent in the corresponding month of the previous year. In contrast, growth in credit extended to businesses increased to 15.0 percent at the end of February 2008 from 12.4 percent one year earlier. The latter growth factor, however, does not necessarily pose a risk for the inflationary outlook as credit extended to the business sector is typically financing productive activity.

9. It was also noted that growth in asset-backed credit displayed a downward trend, suggesting that there is not much inflationary pressure coming from this component. For instance, growth in mortgage loans, which accounts for the bulk of private sector credit, decelerated from 27.7 percent at the end of February 2007 to 12.6 percent at the end of February 2008. Similarly, in line with the slowdown in motor vehicle sales, growth in instalment credit decelerated to 4.3 percent at the end of February 2008 from 12.5 percent at the end of February 2007.

10. The annual growth in total vehicles sales remains subdued on account of tight monetary policy. In February 2008 a sharp rise in the number of passenger vehicles sold was recorded, while the number of commercial vehicle sold contracted. However, the rise in sales of passenger vehicles can be regarded as temporary, as it may be ascribed to tax payers taking advantage of tax write-off provisions ahead of the beginning of the new tax year in March 2008.

The Outlook for Inflation

11. The inflation outlook remains on the upside, with pressure emanating mainly from the exogenous factors. Brent crude oil and food prices are expected to remain high and thus pose a significant upside risk to the inflation outlook. The South African Producer Price Index (PPI), which is a leading indicator for future imported inflation for Namibia, is expected to continue its upward trend as fuel prices and electricity tariffs in South Africa increase, thus raising the cost of production. Additionally, local administered prices are also expected to accelerate on account of the expected annual increase in municipal rates and taxes, and the anticipated increase in electricity tariffs. As the local demand conditions are continuing to moderate, the risk to inflation from this source has eased, even taking into account the slightly expansionary budget for 2008/09. Nevertheless, because of the expectations of growing inflation, the risk of second-round effects remains a concern.

Monetary Policy Stance

12. In general, economic conditions in the country remain sound and with favourable commodity prices and strong SACU receipts, the external current account position remains robust. In this connection, it should be noted that despite excess liquidity conditions, the international reserves position of the country, currently standing at a comfortable level of N$10.2 billion, is more than adequate to meet the country’s short-term external liabilities and to cover more than three months of imports.

13. The Bank notes with concern the inflation risks emanating from the supply side factors, such as increases in administered prices, high crude oil prices, coupled with high food prices. The Bank is also worried about the major uncertainties in the global economic outlook and the potential impact on our economy. Despite these risks to the inflation outlook, the Bank, however, noted the continuous moderation in the domestic demand conditions showing that the current monetary policy stance has been successful in suppressing domestic demand and has, therefore, decided to keep the Bank rate unchanged at 10.5 percent per annum, for the time being.

14. As usual, the Bank of Namibia will maintain a watchful eye over inflationary developments and will not hesitate to take appropriate action should monetary conditions so demand in the interest of price stability.

Tom K. Alweendo

Governor