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**Office of the Governor**

# MONETARY POLICY STATEMENT

## 21 August 2008

1. The Executive Committee of the Bank of Namibia met on 20 August 2008, and decided to keep the Bank Rate unchanged at 10.5 percent.

2. Notwithstanding a noticeable increase in the annual rate of inflation since the Committee last met in June of this year, the Bank of Namibia remains confident about the currency peg as a nominal anchor to ensure long-term price stability. Since the last meeting, international reserves further strengthened from N$9.3 billion to N$11.5 billion, which is more than sufficient to sustain the currency peg. Moreover, fiscal policy, a key requirement in respect to exchange rate targeting, has so far been prudent and supportive of the currency peg.

3. It should be noted that inflation has become a world-wide phenomenon and is largely driven by high commodity prices, particularly oil and cereals, supported by robust global demand. However, there are signs that global demand has started to tapper off, which would hopefully lead to a decline in certain commodity prices. In this connection, there has already been a significant decline in international crude oil prices, from a peak of US$148 per barrel in July to US$113 on 20 August, which should provide relief to inflationary pressures going forward. Moreover, there have been welcome reductions in certain food commodity prices, such as dairy products, cereals and sugar.

4. The surge in the annual rate of inflation from 9.7 percent in May to 11.9 percent in July was largely driven by a sharp rise in transport inflation, which is directly related to high international oil prices. Although, according to the Food and Agricultural Organization of the UN, international food prices could have peaked in March of this year, food price inflation also continued to exert significant

upward pressure on the overall price level. Growth in other domestic demand indicators, such as credit extension to the private sector and motor vehicles sales remain subdued indicating that past policy action by the Bank of Namibia, was successful in curbing price pressure originating from domestic sources.

5. In summary, it is believed that the decision not to change the Bank Rate does not pose a threat to the reserves outlook and hence the currency peg. However, at the same time the Bank of Namibia remains vigilant about the importance of price stability, and will not hesitate to use instruments at its disposal to defend the peg and ensure price stability.

Tom K Alweendo
**GOVERNOR**